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WSFS FINANCIAL CORP  
Form 10-K  
March 17, 2008

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, 2007

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)

500 Delaware Avenue, Wilmington, Delaware 19899 (Address of principal executive offices) (Zip Code)

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

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

| Title of each class            | Name of each exchange on which registered |
|--------------------------------|---|
| Common Stock, \$0.01 par value | The NASDAQ Stock Market LLC               |

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

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

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. ( )

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

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Large accelerated filer --- Accelerated filer X Non-accelerated filer --- Smaller reporting ---

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing price of the registrant's common stock as quoted on NASDAQ as of June 29, 2007 was \$398,547,000. For purposes of this calculation only, affiliates are deemed to be directors, executive officers and beneficial owners of greater than 10% of the outstanding shares.

As of March 5, 2008, there were issued and outstanding 6,173,236 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, 2008 are incorporated by reference in Part III hereof.

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PART I

FORWARD-LOOKING STATEMENTS

Within this Annual Report on Form 10-K and exhibits thereto, management has included certain "forward-looking statements" concerning the future operations of WSFS Financial Corporation ("the Company," "our Company," "we," "our" or "us"). It is management's desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Company of the protections of such safe harbor with respect to all "forward-looking statements" contained in its financial statements. Management has used "forward-looking statements" to describe the future plans and strategies including expectations of our future financial results. Management's ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Delaware, the mid-Atlantic region and the country as a whole, asset quality, loan growth, loan delinquency rates, operating risk, uncertainty of estimates in general and changes in federal and state regulations, among other factors. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. Actual results may differ materially from management expectations. We do not undertake and specifically disclaim any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

ITEM 1. BUSINESS

OUR BUSINESS

WSFS Financial Corporation is parent to WSFS Bank, one of the ten

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oldest banks in the United States continuously-operating under the same name. A permanent fixture in this community, WSFS has been in operation for more than 175 years. In addition to its focus on stellar customer service, the Bank has continued to fuel growth and remain relevant. The Bank is a relationship-focused, locally-managed, community banking institution that has grown to become the largest thrift holding company among traditional thrifts in the State of Delaware, the second largest commercial lender in the state and the fourth largest bank in terms of Delaware deposits.

WSFS' core banking business is commercial lending funded by customer-generated deposits. We have built a \$1.5 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering a high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits in our 29 branch retail banking franchise located in Delaware and southeastern Pennsylvania. We also offer a broad variety of consumer loan products, retail securities and insurance brokerage through our retail branches.

In 2005, we established WSFS Wealth Strategies, our wealth management services division. We built this division in response to demand from our commercial banking clients as their businesses and our relationships with them matured. We also built this business as we learned that competitors in our market provide a poor service and product offering to non-ultra wealthy clients - those with less than \$5 million in investable assets. Our wealth management business is complemented by an asset management company, Cypress Capital, which we acquired in 2004.

Our Cash Connect division is a premier provider of ATM Vault Cash and related services in the United States. Cash Connect manages more than \$265 million in vault cash in approximately 10,000 ATMs nationwide and also provides online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates over 300 ATMs for WSFS Bank, which owns the largest branded ATM network in Delaware.

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### WSFS POINTS OF DIFFERENTIATION

While all banks offer similar products and services, we believe that WSFS has set itself apart from other banks in our market and the industry in general. The following factors summarize what we believe are those points of differentiation.

#### Community Banking Model

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

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

As the financial services industry has consolidated, many independent

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

WSFS Bank offers:

- o Rapid response. Our customers tell us this is a critical differentiator from larger, in-market competitors.
- o One point of contact. Our Relationship Managers are responsible for understanding his or her customers' needs and bringing the right resources in the Bank together to meet those needs.
- o A customized approach to our clients. We believe this gives us an advantage over our competitors who are too large or centralized to offer customized products or services.
- o Products and services that our customers value. This includes a broad array of banking and cash management products, as well as a legal lending limit high enough to meet the credit needs of our customers, especially as they grow.

### Building Associate Engagement and Customer Advocacy

Our business model is built on a concept called Human Sigma. The Human Sigma model, identified by Gallup, Inc., begins with Associates who have taken ownership of their jobs because their strengths have been identified and they have been matched with the right position and strong management. This strategy motivates Associates, accelerates their development and unleashes innovation and productivity to engage our most valuable asset, our customers. As a result, we create Customer Advocates, or customers who have built an emotional attachment to the Bank. Research studies continue to show a direct link between Associate engagement, customer engagement and a company's financial performance.

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[GRAPHIC OMITTED]

[Engaged  
Associates]

[Customer  
Advocates]

[Shareholder  
Value]

Surveys conducted for us by a nationally recognized polling company indicate:

- o Our Associate Engagement scores consistently rank in the top quartile of companies polled. In 2007, there were 7.6 engaged Associates for every disengaged Associate. This compares to a 2.6:1 ratio in 2003 and a national average of 1.9:1.
- o Customer surveys rank us in the top 10% of all companies, a "world class" rating. More than 38% of our customers ranked us a "five" out of "five," strongly agreeing with the statement "I can't imagine a world without WSFS."

We believe that by fostering the energy of engaged and empowered

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Associates, we have become an employer of choice in our market. In 2006 and 2007, WSFS was ranked "Best Place to Work" by The News Journal.

### Strong Market Demographics

Delaware is situated in the middle of the Washington, DC - New York corridor which includes the urban markets of Philadelphia and Baltimore. The state benefits from this urban concentration as well as from a unique political environment that has created favorable law and legal structure, a business-friendly environment and a fair tax system. In its 2007 overview, the Corporation for Enterprise Development ranked Delaware as one of only two states to receive "Straight A's" in its assessment of economic development throughout the U.S. Additionally, in a recent article, CFO Magazine ranked Delaware first or second in each of the four measures it surveyed regarding impressions about state tax environments. Demographics consistently compare favorably to US economic and demographic averages.

| (Most recent available statistics)          | Delaware | National Average |
|---|----------|------------------|
| Average GDP Growth (Average 2003-2006)      | 4.2%     | 3.1%             |
| Unemployment (For December 2007)            | 3.8%     | 5.0%             |
| Median Household Income (Average 2005-2006) | \$52,676 | \$48,023         |
| Population Growth (2000-2006)               | 8.9%     | 6.4%             |

### Lending Discipline

We put a great deal of discipline around our lending, including planned portfolio diversification and a willingness to accept a slightly higher risk of default for customers in favor of a lower probability of loss should default occur. Additionally, we take a proactive approach to identifying trends in our business and lending market and have responded proactively to those areas of concern. For instance, we have limited our exposure to construction and land development (CLD) loans as we anticipated an end to the expansion in housing prices. We have also increased our portfolio monitoring and reporting sophistication. We maintain diversification in our loan portfolio to limit our

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exposure to any single type of credit. Such discipline supplements careful underwriting and the benefits of knowing our customers.

We have been subject to many of the same pressures facing the banking industry, including an increase in our delinquent loans, problem loans and charge-offs from the unsustainably low levels in recent years. The measures we have taken strengthen the Bank's credit position by diversifying risk and limiting exposure.

### Disciplined and Aggressive Capital Management

We understand that the Company's capital (or shareholders' equity) belongs to the Company's shareholders. They have entrusted this capital to us with the expectation that it will be kept safe, but with the equal expectation that it will earn an adequate return. As a result, we prudently but aggressively manage our shareholders' capital. Since 1996, the year we first implemented our

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capital management philosophy, we have returned more than 70% of cumulative earnings in the form of dividends and share repurchase. In 2007, we increased dividends by 25% and repurchased 564,100 shares or 8% of our common stock.

### Strong Performance Expectations

We are focused on aggressive long term financial goals. We define "high performing" as the top quintile in return on assets (ROA), return on equity (ROE) and earnings per share (EPS) growth. While industry headwinds have depressed these measures for the industry in recent years, we believe that, long term, these targets should translate to approximately 1.5% ROA, 18% ROE and a 12% EPS growth rate. Management incentives are paid, in large part, based on driving performance in these areas. "Target" payment level is only achieved by reaching performance at the 60th percentile of a peer group of all publicly traded bank and thrifts in our size range. More detail on this plan is included in our proxy statement.

### Growth

Our successful growth in lending, deposit gathering and earnings have been the result of our focused strategy that provides the service and responsiveness of a community bank in a consolidating marketplace. We will continue to grow by:

- o Recruiting and developing talented, service-minded Associates. We have successfully recruited Associates with strong community ties to strengthen our existing markets and provide a strong start in new communities. We also focus efforts on developing talent and leadership in our current Associate base to better equip those Associates for their jobs and prepare them for leadership roles at WSFS.
- o Embracing Human Sigma in all we do. We are committed to building Associate engagement and customer advocacy as a way to develop our culture and grow our franchise. We firmly believe franchise and shareholder value are directly linked to our Human Sigma model.
- o Continuing strong growth in commercial lending by:
  - o Selectively building a presence in contiguous markets.
  - o Providing product solutions like Remote Deposit Capture to facilitate commercial banking outside of our primary market.
  - o Offering our community banking model that combines Stellar Service with the banking products and services our business customers demand.
- o Aggressively growing deposits. In 2003, we energized our retail branch strategy by combining Stellar Service with an expanded and updated branch network. We have also implemented a number of additional measures to accelerate our deposit growth. We will continue to grow deposits by:

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- o Expanding and renovating our retail branch network.
- o Further expanding our commercial customer relationships with deposit products.
- o Finding creative ways to build deposit market share such as hiring deposit-focused relationship managers, and targeted marketing programs.
- o Growing our wealth management services division by leveraging the strong relationships we have with our current customer base and providing

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unparalleled service to non-ultra wealthy clients in our market.

### Results

Our focus on these points of differentiation has allowed us to grow our core franchise and build value for our shareholders. Since 2003, our commercial loans have grown from \$697 million to \$1.5 billion, a strong 24% compound annual growth rate (CAGR). Over the same period, customer deposits have grown from \$922 million to \$1.5 billion, a 15% CAGR. More importantly, over the last generation shareholder value has increased at a far greater rate than our banking peers and the market in general, as is evident in the table below.

Cumulative Total Shareholder Return Compared with Performance of  
Selected Indexes  
December 31, 1997 through December 31, 2007

[GRAPHIC OMITTED]

|                              | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------|------|------|------|------|------|------|------|------|------|
| WSFS Financial Corporation   | 100  | 85   | 64   | 66   | 90   | 172  | 236  | 317  | 325  |
| Dow Jones Total Market Index | 100  | 123  | 149  | 134  | 117  | 89   | 115  | 127  | 132  |
| Nasdaq Bank Index            | 100  | 90   | 85   | 99   | 112  | 120  | 159  | 181  | 178  |

### SUBSIDIARIES

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc.

WSFS Bank has one subsidiary WSFS Investment Group, Inc., which was formed in 1989 and markets various third-party investment and insurance products, such as single-premium annuities, whole life policies and securities primarily through the Bank's retail banking system and directly to the public.

Montchanin Capital Management, Inc. ("Montchanin") was formed in late 2003 to provide asset management services in the our primary market area. Montchanin has one consolidated subsidiary, Cypress Capital management, LLC ("Cypress"). As of December 31, 2007 Montchanin owned 100% of Cypress. Cypress is a Wilmington based

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investment advisory firm servicing high net-worth individuals and institutions and had approximately \$515 million in assets under management at December 31, 2007.

### DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

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



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INVESTMENT ACTIVITIES

Our short-term investment portfolio is intended to keep the Bank's funds fully employed at the maximum after-tax return, while maintaining acceptable credit, market and interest-rate risk limits, and providing needed liquidity under current circumstances. 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,           |                   |          |                   |        |
|--------------------------------------|------------------------|-------------------|----------|-------------------|--------|
|                                      | 2007                   |                   | 2006     |                   |        |
|                                      | Amount                 | Percent of Assets | Amount   | Percent of Assets | Amount |
|                                      | -----                  | -----             | -----    | -----             | -----  |
|                                      | (Dollars in Thousands) |                   |          |                   |        |
| <b>Held-to-Maturity:</b>             |                        |                   |          |                   |        |
| -----                                |                        |                   |          |                   |        |
| State and political subdivisions.... | \$ 1,516               | 0.1 %             | \$ 4,219 | 0.1%              | \$ 4,  |
| -----                                | -----                  | ---               | -----    | ---               | -----  |
| <b>Available-for-Sale:</b>           |                        |                   |          |                   |        |
| -----                                |                        |                   |          |                   |        |
| Reverse Mortgages.....               | 2,037                  | 0.1               | 598      | -                 |        |
| State and political subdivisions.... | 4,115                  | 0.1               | 2,785    | 0.1               |        |
| U.S. Government and agencies.....    | 20,477                 | 0.6               | 46,920   | 1.6               | 51,    |
| -----                                | -----                  | ---               | -----    | ---               | -----  |
|                                      | 26,629                 | 0.8               | 50,303   | 1.7               | 53,    |
| -----                                | -----                  | ---               | -----    | ---               | -----  |
| <b>Short-term investments:</b>       |                        |                   |          |                   |        |
| -----                                |                        |                   |          |                   |        |
| <b>Interest-bearing deposits in</b>  |                        |                   |          |                   |        |
| -----                                |                        |                   |          |                   |        |
| other banks .....                    | 1,078                  | -                 | 243      | -                 |        |
| -----                                | -----                  | ---               | -----    | ---               | -----  |
|                                      | \$29,223               | 0.9%              | \$54,765 | 1.8%              | \$58,  |
| -----                                | =====                  | ===               | =====    | ===               | =====  |

During 2007, there were no sales of investment securities classified as available-for-sale. Municipal bonds totaling \$1.1 million were called by the issuers. Proceeds from the sale of investments during 2006 and 2005 were \$11.0 million and \$60.7 million, respectively. There were net losses of \$41,000 and \$609,000 realized on sales in 2006 and 2005, respectively. The cost basis for all investment security sales was based on the specific identification method (actual costs are matched to specific securities). There were no sales of investment securities classified as held-to-maturity in 2007, 2006 and 2005.

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The following table shows the terms to maturity and related weighted average yields of investment securities and short-term investments at December 31, 2007. Substantially all of the related interest and dividends represent taxable income.

|   | At December 31, 2007   |                                  |
|---|------------------------|----------------------------------|
|   | Amount                 | Weighted<br>Average<br>Yield (1) |
|   | -----                  | -----                            |
|   | (Dollars In Thousands) |                                  |
| Held-to-Maturity:                               |                        |                                  |
| State and political subdivisions (2):           |                        |                                  |
| Within one year .....                           | \$ -                   | - %                              |
| After one but within five years .....           | 875                    | 7.53                             |
| After ten years .....                           | 641                    | 5.27                             |
|   | -----                  |                                  |
| Total debt securities, held-to-maturity .....   | 1,516                  | 6.57                             |
|   | -----                  |                                  |
| Available-for-Sale:                             |                        |                                  |
| Reverse Mortgages (3):                          |                        |                                  |
| Within one year .....                           | \$ 2,037               | -                                |
|   | -----                  |                                  |
|   | 2,037                  | -                                |
|   | -----                  |                                  |
| State and political subdivisions (2):           |                        |                                  |
| Within one year .....                           | -                      | -                                |
| After one but within five years .....           | 2,015                  | 3.97                             |
| After five but within ten years .....           | 2,100                  | 4.28                             |
|   | -----                  |                                  |
|   | 4,115                  | 4.12                             |
|   | -----                  |                                  |
| U.S. Government and agencies:                   |                        |                                  |
| Within one year .....                           | \$13,978               | 5.22                             |
| After one but within five years .....           | 6,499                  | 3.94                             |
|   | -----                  |                                  |
|   | 20,477                 | 4.81                             |
|   | -----                  |                                  |
| Total debt securities, available-for-sale ..... | 26,629                 | 4.34                             |
|   | -----                  |                                  |
| Total debt securities .....                     | 28,145                 | 4.46                             |
|   | -----                  |                                  |
| Short-term investments:                         |                        |                                  |
| Interest-bearing deposits in other banks .....  | 1,078                  | 0.94                             |

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|                                    |          |      |
|------------------------------------|----------|------|
| Total short-term investments ..... | 1,078    | 0.94 |
|                                    | -----    |      |
|                                    | \$29,223 | 4.33 |
|                                    | =====    |      |

- (1) Reverse mortgages have been excluded from weighted average yield calculations because income can vary significantly from reporting period to reporting period due to the volatility of factors used to value the portfolio.
- (2) Yields on state and political subdivisions are not calculated on a tax-equivalent basis since the effect would be immaterial.
- (3) Reverse mortgages do not have contractual maturities. We have included reverse mortgages in maturities within one year.

In addition to these investment securities, we have maintained an investment portfolio of mortgage-backed securities, \$12.4 million of which is classified as "trading." At December 31, 2007 mortgage-backed securities with a par value of \$464.9 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. Accrued interest receivable for mortgage-backed securities was \$2.0 million at both December 31, 2007 and 2006. Proceeds from the sale of mortgage-backed securities available-for-sale in 2007 were \$2.7 million, resulting in a gain of \$82,000. In 2006, proceeds from the sale of mortgage-backed securities available-for-sale were \$49.6 million, resulting in a loss of \$1.9 million.

The following table shows the book value of mortgage-backed securities and their related weighted average contractual rates at the end of the last three fiscal years.

|   | December 31,           |       |            |       |
|---|------------------------|-------|------------|-------|
|   | 2007                   |       | 2006       |       |
|   | Amount                 | Rate  | Amount     | Rate  |
|   | -----                  | ----  | -----      | ----  |
|   | (Dollars in Thousands) |       |            |       |
| Available-for-Sale:                       |                        |       |            |       |
| -----                                     |                        |       |            |       |
| Collateralized mortgage obligations ..... | \$ 407,113             | 4.97% | \$ 424,748 | 4.88% |
| FNMA .....                                | 35,654                 | 4.04  | 42,254     | 4.05  |
| FHLMC .....                               | 31,357                 | 4.31  | 31,121     | 4.29  |
| GNMA .....                                | 15,923                 | 4.73  | 19,115     | 4.72  |
|   | -----                  | ----  | -----      | ----  |
|   | \$ 490,047             | 4.85% | \$ 517,238 | 4.77% |
|   | =====                  | ====  | =====      | ====  |
| Trading:                                  |                        |       |            |       |
| -----                                     |                        |       |            |       |
| Collateralized mortgage obligations.....  | \$ 12,364              | 7.79% | \$ 12,364  | 8.35% |
|   | =====                  | ----  | =====      | ----  |

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### CREDIT EXTENSION ACTIVITIES

Over the past several years we have focused on increasing the more profitable segments of our loan portfolio. Our current lending activity is concentrated on lending to small to mid-sized businesses in the mid-Atlantic region of the United States primarily in Delaware and contiguous counties in Pennsylvania, Maryland and New Jersey. In 2003, residential first mortgage loans comprised 35.1% of the loan portfolio, while the combination of commercial loans and commercial real estate loans made up only 52.3%. In contrast, at December 31, 2007, residential loans totaled only 20.1%, while commercial loans and commercial real estate loans have increased to a combined total of 68.6% of the loan portfolio. Traditionally, the majority of typical thrift institutions' loan portfolios have consisted of first mortgage loans on residential properties.

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

| Type of Loans                  | December 31,           |         |             |         |             |         |
|--------------------------------|------------------------|---------|-------------|---------|-------------|---------|
|                                | 2007                   |         | 2006        |         | 2005        |         |
|                                | Amount                 | Percent | Amount      | Percent | Amount      | Percent |
|                                | (Dollars in Thousands) |         |             |         |             |         |
| Residential real estate (1) .. | \$ 449,853             | 20.1%   | \$ 474,871  | 23.5%   | \$ 457,651  | 25.8%   |
| Commercial real estate:        |                        |         |             |         |             |         |
| Commercial mortgage .....      | 465,928                | 20.9    | 422,089     | 20.9    | 410,552     | 23.1    |
| Construction .....             | 276,939                | 12.4    | 241,931     | 12.0    | 178,418     | 10.0    |
| Total commercial               |                        |         |             |         |             |         |
| real estate.....               | 742,867                | 33.3    | 664,020     | 32.9    | 588,970     | 33.1    |
| Commercial .....               | 787,539                | 35.3    | 643,918     | 31.9    | 508,930     | 28.7    |
| Consumer .....                 | 278,272                | 12.4    | 263,478     | 13.0    | 244,820     | 13.8    |
| Gross loans .....              | \$2,258,531            | 101.1   | \$2,046,287 | 101.3   | \$1,800,371 | 101.4   |
| Less:                          |                        |         |             |         |             |         |
| (Deferred fees)                |                        |         |             |         |             |         |
| unearned income .....          | (701)                  | 0.0     | (838)       | 0.0     | (304)       | 0.0     |
| Allowance for loan             |                        |         |             |         |             |         |
| losses.....                    | 25,252                 | 1.1     | 27,384      | 1.3     | 25,381      | 1.4     |
| Net loans .....                | \$2,233,980            | 100.0%  | \$2,019,741 | 100.0%  | \$1,775,294 | 100.0%  |

(1) Includes \$2,418; \$925; \$438; \$3,249; and \$1,465 of residential mortgage

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loans held-for-sale at December 31, 2007; 2006; 2005; 2004; and 2003.

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The following tables show how much time remains until our loans mature. The first table details the total loan portfolio by type of loan. The second table details the total loan portfolio by loans with fixed interest rates and loans with adjustable interest rates. The tables show loans by contractual maturity. Loans may be pre-paid so that the actual maturity is earlier than the contractual maturity. Prepayments tend to be highly dependent upon the interest rate environment. Loans having no stated maturity or repayment schedule are reported in the Less than One Year category.

|                             | Less than<br>One Year<br>----- | One to<br>Five Years<br>----- | Over<br>Five Years<br>----- |
|-----------------------------|--------------------------------|-------------------------------|-----------------------------|
| (Dollars in Thousands)      |                                |                               |                             |
| Real estate loans (1) ..... | \$ 95,449                      | \$273,682                     | \$544,233                   |
| Construction loans .....    | 158,044                        | 111,508                       | 7,387                       |
| Commercial loans .....      | 293,603                        | 284,438                       | 209,497                     |
| Consumer loans .....        | 136,826                        | 57,887                        | 83,559                      |
|                             | \$683,922                      | \$727,515                     | \$844,676                   |
| Rate sensitivity:           |                                |                               |                             |
| Fixed .....                 | \$ 78,459                      | \$325,242                     | \$343,232                   |
| Adjustable (2) .....        | 605,463                        | 402,273                       | 501,444                     |
| Gross loans                 | \$683,922                      | \$727,515                     | \$844,676                   |

(1) Includes commercial mortgage loans; does not include loans held-for-sale.

(2) Includes hybrid adjustable rate mortgages

### Residential Real Estate Lending.

We originate residential mortgage loans with loan-to-value ratios up to 100% and generally require private mortgage insurance for up to 30% of the mortgage amount for mortgage loans with loan-to-value ratios exceeding 80%. We do not have any significant concentrations of such insurance with any one insurer. On a limited basis, we originate or purchase loans with loan-to-value ratios exceeding 80% without a private mortgage insurance requirement. At December 31, 2007, the balance of all such loans was approximately \$4.4 million.

Generally, our residential mortgage loans are underwritten and documented in accordance with standard underwriting criteria published by the Federal Home Loan Mortgage Corporation ("FHLMC") to assure maximum eligibility for subsequent sale in the secondary market. We sell only those loans that are originated specifically with the intention to sell.

To protect the propriety of our liens, we require that title insurance be obtained. We also require fire and extended coverage casualty insurance for properties securing residential loans. All properties securing residential loans made by us are appraised by independent, licensed and certified appraisers selected by us and are subject to review in accordance with our standards.

The majority of our adjustable-rate residential real estate loans have interest rates that adjust yearly after an initial period. Typically, the change

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in rate is limited to two percentage points at the adjustment date. Adjustments are generally based upon a margin (currently 2.75%) 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. We underwrite adjustable-rate loans under standards consistent with private mortgage insurance and secondary

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market criteria. We do not originate adjustable-rate mortgages with payment limitations that could produce negative amortization. Consistent with industry practice in our market area, we typically originate adjustable-rate mortgage loans with discounted initial interest rates.

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

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

In general, loans are sold without recourse except for the repurchase arising from standard contract provisions covering violation of representations and warranties or, under certain investor contracts, a default by the borrower on the first payment. We also have limited recourse exposure under certain investor contracts in the event a borrower prepays a loan in total within a specified period after sale, typically one year. The recourse is limited to a pro rata portion of the premium paid by the investor for that loan, less any prepayment penalty collectible from the borrower.

Commercial Real Estate, Construction and Commercial Lending.

Federal savings banks are generally permitted to invest up to 400% of their total regulatory capital in nonresidential real estate loans and up to 20% of its assets in commercial loans. As a federal savings bank that was formerly chartered as a Delaware savings bank, we have certain additional lending authority.

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

We offer commercial construction loans to developers. In some cases these loans are made as "construction/permanent" loans, which provides for disbursement of loan funds during construction and automatic conversion to mini-permanent loans (1-5 years) upon completion of construction. These construction loans are made on a short-term basis, usually not exceeding two years, with interest rates indexed to our prime rate or London InterBank Offered Rate ("LIBOR"), in most cases, and adjusted periodically as these rates change. The loan appraisal process includes the same evaluation criteria as required for permanent mortgage loans, but also takes into consideration: completed plans, specifications, comparables and cost estimates. Prior to approval of the credit, these items are used as a basis to determine the appraised value of the subject property when completed. Our policy requires that all appraisals be reviewed independently from our commercial lending staff. Generally, the loan-to-value ratios for construction loans do not exceed 75%. The initial interest rate on the permanent portion of the financing is determined by the prevailing market rate at the

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time of conversion to the permanent loan. At December 31, 2007, \$431.8 million was committed for construction loans, of which \$276.9 million had been disbursed.

The remainder of our commercial lending includes loans for the purpose of working capital, financing equipment acquisitions, business expansion and other business purposes. These loans generally range in amounts up to \$10 million, and their terms range from less than one year to seven years. The loans generally carry variable interest rates indexed to our prime rate or LIBOR, at the time of closing. We have no loans to any one industry with a concentration greater than 12.0%.

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

Construction loans involve additional risk because loan funds are advanced as construction projects progress. The valuation of the underlying collateral can be difficult to quantify prior to the completion of the construction. This is due to uncertainties inherent in construction such as changing construction costs, delays arising from labor or material shortages and other unpredictable contingencies. We attempt to mitigate these risks and plan for these contingencies through additional analysis and monitoring of our construction projects. Construction loans receive independent inspections prior to disbursement of funds.

Federal law limits the extensions of credit to any one borrower to 15% of unimpaired capital, or 25% if the difference 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

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credit, but do not include unfunded loan commitments. At December 31, 2007, no borrower had collective outstandings exceeding these limits.

### Consumer Lending.

Our primary consumer credit products are equity-secured installment loans and home equity lines of credit. At December 31, 2007, we had equity-secured installment loans totaling \$147.6 million which represented 53% of total consumer loans. A home equity line of credit grants a borrower a line of credit of up to 100% of the appraised value (net of any senior mortgages) of their residence. This line of credit is secured by a mortgage on the borrower's property and can be drawn upon at any time during the period of agreement. At December 31, 2007, we had extended \$205.7 million in home equity lines of credit, of which \$108.9 million had been drawn at that date. Home equity lines of credit offer customers with potential Federal income tax advantages, the convenience of checkbook access and revolving credit features. Home equity lines of credit expose us to the risk that falling collateral values may leave us inadequately secured, while the risk on products like home equity loans is mitigated as they amortize over time. We have not had any significant adverse experience on home equity lines of credit.

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The following shows our consumer loans at year-end, for the last five years.

|                                      | December 31,           |         |           |         |           |         |
|--------------------------------------|------------------------|---------|-----------|---------|-----------|---------|
|                                      | 2007                   |         | 2006      |         | 2005      |         |
|                                      | Amount                 | Percent | Amount    | Percent | Amount    | Percent |
|                                      | (Dollars in Thousands) |         |           |         |           |         |
| Equity secured installment loans.... | \$147,551              | 53.0%   | \$141,708 | 53.8%   | \$136,721 | 55.8%   |
| Home equity lines of credit.....     | 108,873                | 39.1    | 100,981   | 38.3    | 87,503    | 35.7    |
| Automobile .....                     | 1,159                  | 0.4     | 1,702     | 0.7     | 2,616     | 1.1     |
| Unsecured lines of credit.....       | 5,011                  | 1.8     | 8,947     | 3.4     | 8,780     | 3.6     |
| Other .....                          | 15,678                 | 5.7     | 10,140    | 3.8     | 9,200     | 3.8     |
|                                      | -----                  | -----   | -----     | -----   | -----     | -----   |
| Total consumer loans.....            | \$278,272              | 100.0%  | \$263,478 | 100%    | \$244,820 | 100.0%  |
|                                      | =====                  | =====   | =====     | =====   | =====     | =====   |

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### Loan Originations, Purchase and Sales.

We have engaged in traditional lending activities primarily in Delaware and contiguous areas of neighboring states. As a federal savings bank, however, we may originate, purchase and sell loans throughout the United States. We have purchased limited amounts of loans from outside our normal lending area when such purchases are deemed appropriate. We originate fixed-rate and adjustable-rate residential real estate loans through our banking offices. In addition, we have established relationships with correspondent banks and



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mortgage brokers to originate loans.

During 2007, we originated \$671 million of residential real estate loans. This compares to originations of \$459 million in 2006. From time to time, we have purchased whole loans and loan participations in accordance with our ongoing asset and liability management objectives. Purchases of residential real estate loans from correspondents and brokers primarily in the mid-Atlantic region totaled \$53.0 million for the year ended December 31, 2007 and \$81.6 million for 2006. Residential real estate loan sales totaled \$26 million in 2007, \$33.0 million in 2006 and \$39.1 million in 2005. While we generally intend to hold our loans for the foreseeable future, we sell certain newly originated mortgage loans in the secondary market primarily to control the interest rate sensitivity of our balance sheet and to manage overall balance sheet mix. We hold certain fixed-rate mortgage loans for investment consistent with our current asset/liability management strategies.

Our residential real estate portfolio includes \$17.4 million of sub-prime mortgage loans. Most of our subprime portfolio is well seasoned, as is evidenced by our low charge-offs and delinquency ratios. Of these loans \$546,000 were in nonaccrual status as of December 31, 2007. Net charge offs in this portfolio for the year were minimal at \$41,000 or 23 basis points.

At December 31, 2007, we serviced approximately \$255 million of residential mortgage loans for others compared to \$266 million at December 31, 2006. We also service residential mortgage loans for our own portfolio totaling \$447 million and \$453 million at December 31, 2007 and 2006, respectively.

We originate commercial real estate and commercial loans through our commercial lending division. Commercial loans are made for the purpose of working capital, financing equipment acquisitions, business expansion and other business purposes. During 2007, we originated \$908 million of commercial and commercial real estate loans compared with \$711 million in 2006. To reduce our exposure on certain types of these loans, or to maintain relationships within internal lending limits at times we will sell a portion of our commercial real estate loan portfolio. Commercial real estate loan sales totaled \$19.3 million and \$16.0 million in 2007 and 2006, respectively. These amounts represent gross contract amounts and do not reflect amounts outstanding on those loans.

Our consumer lending activity is conducted through our branch offices and through correspondent banks and mortgage brokers. We originate a variety of consumer credit products including home improvement loans, home equity lines of credit, automobile loans, credit cards, unsecured lines of credit and other secured and unsecured personal installment loans. During 2007, consumer loan originations amounted to \$19.0 million compared to \$18.5 million in 2006.

During 2006, we formed a new reverse mortgage initiative. While the Bank's activity during the year has been limited to acting as a correspondent for these loans, our intention is to originate and underwrite our own reverse mortgages in the future. We expect to sell most of these loans and not to hold them in our portfolio. These reverse mortgages are government approved and insured.

All loans to one borrowing relationship exceeding \$3 million must be approved by the Senior Management Loan Committee ("SLC"). The Executive Committee of the Board of Directors ("EC") approves the minutes of the SLC meetings. They also approve individual loans exceeding \$5 million for customers with less than one year of significant loan history with the Bank and loans in excess of \$7.5 million for customers with established borrowing relationships. Depending upon their experience and management position, individual officers of the Bank have the

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authority to approve smaller loan amounts. Our credit policy includes a "House Limit" to one borrowing relationship of \$18 million. In extraordinary circumstances, we will approve exceptions to the "House Limit". The largest is a borrowing relationship of \$34.5 million, which the EC approved. This borrowing is secured by U.S. Treasury securities which have a value at maturity equal to or exceeding the aggregate loan payments.

### Fee Income from Lending Activities.

We earn fee income from lending activities, including fees for originating loans, servicing loans and selling loan participations. We also receive fee income for making commitments to originate construction, residential and commercial real estate loans. Additionally, we collect fees related to existing loans which include prepayment charges, late charges and assumption fees.

We charge fees for making loan commitments. Also as part of the loan application process, the borrower may pay us for out-of-pocket costs to review the application, whether or not the loan is closed.

Most loan fees are not recognized in the Consolidated Statement of Operations immediately, but are deferred as adjustments of yield in accordance with U.S. generally accepted accounting principles and are reflected in interest income. Those fees represented an immaterial amount of interest income during the three years ended December 31, 2007. Loan fees other than those considered adjustments of yield (such as late charges) are reported as loan fee income, a component of noninterest income.

### LOAN LOSS EXPERIENCE, PROBLEM ASSETS AND DELINQUENCIES

Our 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 the ultimate collectibility of principal and interest.

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

### SOURCES OF FUNDS

We manage our liquidity risk and funding needs through our treasury function and our Asset/Liability Committee. Historically, we have had success in growing our loan portfolio. For example, during the year ended December 31,

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2007, net loan growth resulted in the net use of \$221.2 million in cash. The loan growth was primarily the result of our continued success in increasing corporate and small business lending. Management expects this trend to continue. While our loan-to-deposit ratio has been well above 100% for many years, management has significant experience managing its funding needs through borrowings and deposit growth.

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

- o Deposit growth,

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- o The brokered deposit market,
- o Borrowing from the Federal Home Loan Bank,
- o Other borrowings such as repurchase agreements,
- o Cash flow from securities and loan sales and repayments,
- o And our net income.

Our current branch expansion and renovation program is focused on expanding our retail footprint in Delaware and attracting new customers to provide additional deposit growth. Customer deposit growth was strong, equaling \$135.5 million, or 10%, between December 31, 2006 and December 31, 2007.

Deposits. We offer various deposit programs to our customers, including savings accounts, demand deposits, interest-bearing demand deposits, money market deposit accounts and certificates of deposits. In addition, we accept "jumbo" certificates of deposit with balances in excess of \$100,000 from individuals, businesses and municipalities in Delaware.

WSFS is the second largest independent full service banking institution headquartered and operating in Delaware. The Bank primarily attracts deposits through its system of 29 retail banking offices (as of December 31, 2007). Twenty banking offices were located in northern Delaware's New Castle County, WSFS' primary market. These banking offices maintain approximately 159,000 total account relationships with approximately 63,000 total households. Four banking offices are located in central Delaware's Kent County, two of which are in the state capital, Dover. Three banking offices are located in Delaware's Sussex County and two other banking offices are located in southeastern Pennsylvania.

The following table shows the maturity of certificates of deposit of \$100,000 or more as of December 31, 2007:

| Maturity Period<br>-----        | December 31,<br>2007<br>---- |
|---------------------------------|------------------------------|
|                                 | (In Thousands)               |
| Less than 3 months.....         | \$138,198                    |
| Over 3 months to 6 months.....  | 69,014                       |
| Over 6 months to 12 months..... | 31,723                       |
| Over 12 months.....             | 10,014                       |
|                                 | -----                        |
|                                 | \$248,949                    |
|                                 | =====                        |

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Borrowings. We utilize the following borrowing sources to fund operations:

### Federal Home Loan Bank Advances

As a member of the Federal Home Loan Bank of Pittsburgh, we are able to obtain Federal Home Loan Bank ("FHLB") advances. Advances from the FHLB of Pittsburgh had rates ranging from 3.48% to 5.45% at December 31, 2007. Pursuant to collateral agreements with the FHLB, the advances are secured by qualifying first mortgage loans, qualifying fixed-income securities, FHLB stock and an interest-bearing demand deposit account with the FHLB. We are required to acquire and hold shares of capital stock in the FHLB of Pittsburgh in an amount at least equal to 4.65% of its borrowings from them, plus 0.65% of our unused borrowing capacity. As of December 31, 2007, our FHLB stock investment totaled \$45.5 million.

Seven advances are outstanding at December 31, 2007 totaling \$170.0 million, with a weighted average rate of 4.47% maturing in 2009 and beyond. At the discretion of the FHLB, they are convertible quarterly to a variable rate

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advance based upon a three-month LIBOR rate, after an initial fixed term. If any of these advances convert, we have the option to prepay these advances at predetermined times or rates.

### Trust Preferred Borrowings

On April 6, 2005, we completed the issuance of \$67.0 million of aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. The proceeds from this issuance were used to fund the redemption of \$51.5 million of Floating Rate Capital Trust I Preferred Securities which had a variable interest rate of 250 basis points over the three-month LIBOR rate.

### Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

During 2007, we purchased federal funds as a short-term funding source. At December 31, 2007, we had purchased \$50.0 million in federal funds at a rate of 4.25%. At December 31, 2006, we also had \$50.0 million federal funds purchased.

During 2007, we sold securities under agreements to repurchase as a funding source. At December 31, 2007, securities sold under agreements to repurchase had a fixed rate of 4.87%. The underlying securities are mortgage-backed securities with a book value of \$29.1 million at December 31, 2007.

### PERSONNEL

As of December 31, 2007 we had 599 full-time equivalent Associates (employees). The Associates are not represented by a collective bargaining unit. Management believes its relationship with its Associates is very good.

### REGULATION

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### Regulation of the Corporation

General. We are a registered savings and loan holding company and are subject to the regulation, examination, supervision and reporting requirements of the Office of Thrift Supervision ("OTS"). It is also a registered public company subject to the reporting requirements of the United States Securities and Exchange Commission. The filings we make with Securities and Exchange Commission, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, are available on the investor relations page of our website at [www.wsfsbank.com](http://www.wsfsbank.com).

Sarbanes-Oxley Act of 2002. Sarbanes-Oxley Act of 2002 (the "Act"). The Securities and Exchange Commission (the "SEC") has promulgated new regulations pursuant to the Sarbanes-Oxley Act of 2002 and may continue to propose additional implementing or clarifying regulations as necessary in furtherance of the Act. The passage of the Act and the regulations implemented by the SEC subject publicly-traded companies to additional and more cumbersome reporting regulations and disclosure. Compliance with the Act and corresponding regulations has increased our expenses.

Restrictions on Acquisitions. A savings and loan holding company must obtain the prior approval of the Director of OTS before acquiring, (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. 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%

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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 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 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 us 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 the federal association qualifies as a "domestic building and loan association" under Section 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

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qualify such branches taken as a whole for treatment as a domestic building and loan association or qualified thrift lender. 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.

### Regulation of WSFS Bank

General. As a federally chartered savings institution, the Bank is subject to extensive regulation by the Office of Thrift Supervision. 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. The Bank must file reports with Office of Thrift Supervision describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board.

Transactions with Affiliates; Tying Arrangements. The Bank is subject to certain restrictions in its dealings with us and our affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings association, generally, is any company or entity which controls or is under common control with the savings association or any subsidiary of the savings association that is a bank or savings association. In a holding company context, the parent holding company of a savings association (such as "WSFS Financial Corporation") 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 that engages in any activity impermissible 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 prohibited from extending credit, offering

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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.

Regulatory Capital Requirements. Under OTS capital regulations, savings institutions must maintain "tangible" capital equal to 1.5% of adjusted total assets, "Tier 1" or "core" capital equal to 4% of adjusted total assets (or 3% if the institution is rated composite 1 under the OTS examiner rating system), 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

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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 Tier 1 or 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 of mutual institutions and "qualifying supervisory goodwill," less intangible assets other than certain supervisory goodwill and, subject to certain limitations, mortgage and non-mortgage servicing rights, purchased credit card relationships and credit-enhancing interest only strips. 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 limited amounts of mortgage servicing assets. 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 "non-includable" 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. At December 31, 2007, the Bank was in compliance with both the core and tangible capital requirements.

The risk weights assigned by the OTS risk-based capital regulation range from 0% for cash and U.S. government securities to 100% for consumer and commercial loans, non-qualifying mortgage loans, property acquired through foreclosure, assets more than 90 days past due and other assets. In determining compliance with the risk-based capital requirement, a savings institution may 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, non-withdrawable accounts and pledged deposits that do not qualify as core capital, certain approved subordinated debt, certain other capital instruments, general loan loss allowances up to 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair values. Total capital is reduced by the amount of the institution's reciprocal holdings of depository institution capital instruments and all equity investments. At December 31, 2006, WSFS Bank was in compliance with the OTS risk-based capital requirements.

**Dividend Restrictions.** As the subsidiary of a savings and loan holding company, WSFS bank must submit notice to the OTS prior to making any capital distribution (which includes cash dividends and payments to shareholders of another institution in a cash merger). In addition, a savings association must make application to the OTS to pay a capital distribution if (x) the association would not be adequately capitalized following the distribution, (y) the association's total distributions for the calendar year exceeds the association's net income for the calendar year to date plus its net income (less distributions) for the preceding two years, or (z) the distribution would otherwise violate applicable law or regulation or an agreement with or condition imposed by the OTS.

**Insurance of Deposit Accounts.** The Bank's deposits are insured to applicable limits by the FDIC. Although the FDIC is authorized to assess premiums under a risk-based system for such deposit insurance, most insured depository institutions have not been required to pay premiums for the last ten years. The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"), which was signed into law on February 15, 2006, resulted in significant changes to the federal deposit insurance program: (i) effective March 31, 2006, the Bank Insurance Fund and the

Savings Association Insurance Fund were merged into a new combined fund, called the Deposit Insurance Fund; (ii) the current \$100,000 deposit insurance coverage will be indexed for inflation (with adjustments every five years, commencing January 1, 2011); and (iii) deposit insurance coverage for retirement accounts was increased to \$250,000 per participant subject to adjustment for inflation. In addition, the Reform Act gave the FDIC greater latitude in setting the assessment rates for insured depository institutions, which could be used to impose minimum assessments.

The FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund annually at between 1.15% and 1.5% of estimated insured deposits. If the Deposit Insurance Fund's reserves exceed the designated reserve ratio, the FDIC is required to pay out all or, if the reserve ratio is less than 1.5%, a portion of the excess as a dividend to insured depository institutions based on the percentage of insured deposits held on December 31, 1996 adjusted for subsequently paid premiums. Insured depository institutions that were in existence on December 31, 1996 and paid assessments prior to that date (or their successors) are entitled to a one-time credit against future assessments based on the amount of their assessable deposits on that date. During 2007 we were able to offset our entire deposit insurance premium. For 2008, we still have \$300,000 available from the special assessment credit.

Pursuant to the Reform Act, the FDIC has maintained the designated reserve ratio at 1.25%. The FDIC has also adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. Beginning in 2007, well-capitalized institutions with a CAMELS ("Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk") rating of 1 or 2 will be grouped in Risk Category I and will be assessed for deposit insurance at an annual rate of between five and seven basis points, with the assessment rate for an individual institution to be determined according to a formula based on a weighted average of the institution's individual CAMEL component ratings, plus either five financial ratios or the average ratings of its long-term debt. Institutions in Risk Categories II, III and IV will be assessed at annual rates of 10, 28 and 43 basis points, respectively.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the SAIF. The FICO assessment rates, which are determined quarterly, averaged 0.012% of insured deposits in fiscal 2007. These assessments will continue until the FICO bonds mature in 2017.

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, a savings institution must maintain reserves against their transaction accounts. As of December 31, 2007, no reserves were required to be maintained on the first \$8.5 million of transaction accounts, reserves of 3% were required to be maintained against the next \$37.3 million of transaction accounts and a reserve of 10% against all remaining transaction accounts. 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 may reduce the amount of an institution's interest-earning assets. As of December 31, 2007 we met our reserve requirements.

ITEM 1A. RISK FACTORS



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The following are certain risks that management believes are specific to our business. This should not be viewed as an all inclusive list and the order is not intended as an indicator of the level of importance.

Future loan losses may negatively impact the Company

We are subject to credit risk, which is the risk of losing principal or interest due to borrowers' failure to repay loans in accordance with their terms. A downturn in the economy or the real estate market in our market areas or a rapid change in interest rates could have a negative effect on collateral values and borrowers' ability to repay. This

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deterioration in economic conditions could result in losses to us. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual, thereby reducing interest income.

Rapidly changing interest rate environments could reduce our profitability

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are key drivers of our net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases or decreases in interest rates in the future could negatively impact our net interest margin.

Liquidity risk

Due to our continued success in our lending operations, particularly in corporate and small business lending, our loans have exceeded customer deposit funding. Changes in interest rates or alternative investment opportunities and other factors may make deposit gathering more difficult. Additionally, interest rate changes or disruptions in the capital market may make the terms of the borrowings and brokered deposits less favorable. As a result, there is a risk that we will not have funds to meet our obligations when they come due. Interest rate and liquidity risk is managed by our Asset/Liability Committee ("ALCO"). While our loan-to-deposit ratio has been well above 100% for many years, management has significant experience managing its funding needs through borrowings and deposit growth. A liquidity crisis plan has been developed and is an important part of our liquidity management. The financial services industry is very competitive

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, larger banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. Many of these competitors have substantially greater resources than us. If we are unable to compete effectively, we will lose market share and will have less income from deposits and loans, which will negatively impact our net interest margin. Profitability of other products may be reduced as well.

Adverse changes in the economic growth and vitality in our banking markets may negatively impact us

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Our business is closely tied to the economies of Delaware and the contiguous counties outside of Delaware. A sustained economic downturn could adversely affect our net income.

We are subject to extensive regulation

Our operations are subject to extensive regulation by federal banking authorities which impose requirements and restrictions on our operations. The impact of changes to laws and regulations or other actions by regulatory agencies could make regulatory compliance more difficult or expensive for us and could adversely affect our net income.

We may not be able to achieve our growth plans or effectively manage its growth

There can be no assurance that growth opportunities will be available or that growth will be successfully managed. This includes, but is not limited to, growth in generating loans and gathering deposits. Due to our investment in future growth, failure to obtain sufficient growth would negatively effect our net income.

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Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively effect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income.

We continually encounter technological change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Our largest competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and our net income.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

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None.

### ITEM 2. PROPERTIES

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The following table shows information regarding offices and material properties held by us, and our subsidiaries, at December 31, 2007.

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| Location<br>-----   | Owned/<br>Leased<br>----- | Date Lease<br>Expires<br>----- | Net Book Value<br>Of Property<br>or Leasehold<br>Improvements (1)<br>-----<br>(In T |
|---|---------------------------|--------------------------------|---|
| WSFS :  |                           |                                |   |
| WSFS Bank Center Branch<br>Main Office<br>500 Delaware Avenue<br>Wilmington, De 19801         | Leased                    | 2011                           | 796   |
| Union Street Branch<br>3rd & Union Streets<br>Wilmington, DE 19805                            | Leased                    | 2008                           | 66  |
| Trolley Square Branch<br>1711 Delaware Ave<br>Wilmington, DE 19806                            | Leased                    | 2011                           | 28  |
| Fairfax Shopping Center (3)<br>2005 Concord Pike<br>Wilmington, DE 19803                      | Owned                     |                                | 8,195   |
| Branmar Plaza Shopping Center Branch<br>1812 Marsh Road<br>Wilmington, DE 19810               | Leased                    | 2008                           | 89  |
| Prices Corner Shopping Center Branch<br>3202 Kirkwood Highway<br>Wilmington, DE 19808         | Leased                    | 2008                           | 22  |
| Pike Creek Shopping Center Branch<br>New Linden Hill & Limestone Road<br>Wilmington, DE 19808 | Leased                    | 2015                           | 772   |

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| Location<br>-----  | Owned/<br>Leased<br>----- | Date Lease<br>Expires<br>----- | Net Book Value<br>Of Property<br>or Leasehold<br>Improvements (1)<br>-----<br>(In T |
|--|---------------------------|--------------------------------|---|
| University Plaza Shopping Center Branch<br>100 University Plaza<br>Newark, DE 19712        | Leased                    | 2026                           | 1,412   |
| College Square Shopping Center Branch(4)<br>Route 273 & Liberty Avenue<br>Newark, DE 19711 | Leased                    | 2012                           | 142   |

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|  |        |      |       |
|--|--------|------|-------|
| Airport Plaza Shopping Center Branch<br>144 N. DuPont Hwy.<br>New Castle, DE 19720                       | Leased | 2013 | 715   |
| Stanton Branch<br>Inside ShopRite<br>1600 W. Newport Pike<br>Wilmington, DE 19804                        | Leased | 2011 | 20    |
| Glasgow Branch<br>Inside Genaurdi's at People Plaza<br>Routes 40 & 896<br>Newark, DE 19702               | Leased | 2008 | 37    |
| Middletown Crossing Shopping Center<br>Route 299 and Silver Lake Road<br>Middletown, De 19709            | Leased | 2017 | 1,046 |
| Dover Branch<br>Inside Metro Food Market<br>Rt. 134 & White Oak Road<br>Dover, DE 19901                  | Leased | 2010 | 15    |
| West Dover Loan Office<br>Greentree Office Center<br>160 Greentree Drive<br>Suite 105<br>Dover, DE 19904 | Leased | 2009 | 12    |
| Blue Bell Loan Office<br>721 Skippack Pike<br>Suite 101<br>Blue Bell, PA 19422                           | Leased | 2012 | 9     |
| Glen Eagle Branch<br>Inside Genaurdi's Family Market<br>475 Glen Eagle Square<br>Glen Mills, PA 19342    | Leased | 2008 | 117   |
| University of Delaware-Trabant University Center<br>17 West Main Street<br>Newark, DE 19716              | Leased | 2008 | 74    |
| Brandywine Branch<br>Inside Genaurdi's Family Market<br>2522 Foulk Road<br>Wilmington, DE 19810          | Leased | 2009 | 54    |
| Operations Center<br>2400 Philadelphia Pike<br>Wilmington, DE 19703                                      | Owned  |      | 729   |
| Longwood Branch<br>830 E. Baltimore Pike<br>E. Marlboro, PA 19348  | Leased | 2010 | 79    |
| Holly Oak Branch<br>Inside Super Fresh<br>2105 Philadelphia Pike<br>Claymont, DE 19703                   | Leased | 2010 | 67    |

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|   |        |      |     |
|---|--------|------|-----|
| Hockessin Branch<br>7450 Lancaster Pike<br>Wilmington, DE 19707 | Leased | 2015 | 622 |
|---|--------|------|-----|

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| Location<br>-----   | Owned/<br>Leased<br>----- | Date Lease<br>Expires<br>----- | Net Book Value<br>Of Property<br>or Leasehold<br>Improvements (1)<br>-----<br>(In T |
|---|---------------------------|--------------------------------|---|
| Lewes Branch<br>Southpointe Professional Center<br>1515 Savannah Road, Suite 103<br>Lewes, DE 19958 | Leased                    | 2008                           | 117   |
| Fox Run Shopping Center<br>Bear, De   | Leased                    | 2015                           | 961   |
| Camden Town Center<br>4566 S. Dupont Highway<br>Camden, DE 19934                                    | Leased                    | 2024                           | 1,032   |
| Rehoboth Branch<br>Lighthouse Plaza<br>Route #1<br>Rehoboth, DE 19771                               | Leased                    | 2028                           | 914   |
| Loan Operations<br>30 Blue Hen Drive<br>Suite 200<br>Newark, DE 19713                               | Leased                    | 2012                           | 5   |
| West Dover Branch<br>1486 Forest Avenue<br>Dover, DE 19904  | Owned                     |                                | 2,232   |
| Longneck Branch<br>24985 John J. Williams Highway<br>Millsboro, DE 19966                            | Leased                    | 2026                           | 1,311   |
| Smyrna (5)<br>231 N. DuPont Parkway<br>Smyrna, DE 19977   | Leased                    | 2008                           | -   |
| Smyrna (6)<br>Simon's Corner Shopping Center<br>1300 South DuPont Highway<br>Smyrna, DE 19977       | Leased                    | 2026                           | 177   |
| Oxford, LPO<br>59 South Third Street<br>Oxford, PA  | Leased                    | 2011                           | 30  |

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|  |        |      |       |
|--|--------|------|-------|
| Greenville<br>3908 Kennett Pike<br>Greenville, DE                            | Owned  |      | 2,183 |
| WSFS Bank Center (2)<br>500 Delaware Avenue<br>Wilmington, De 19801          | Leased | 2019 | 1,813 |
| Market Street Branch(7)<br>833 Market Street<br>Wilmington, De 19801         | Leased | 2009 | 148   |
| Annandale, VA<br>7010 Little River Tnpk.<br>Suite 330<br>Annandale, VA 22003 | Leased | 2011 | 20    |
| Oceanview(8)<br>69 Atlantic Avenue<br>Oceanview, DE 19970                    | Leased | 2022 | 29    |

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| Location<br>-----   | Owned/<br>Leased<br>----- | Date Lease<br>Expires<br>----- | Net Book Value<br>Of Property<br>or Leasehold<br>Improvements (1)<br>----- |
|---|---------------------------|--------------------------------|--|
| Montchanin Capital Management, Inc.<br>-----<br>1220 Market Street<br>Suite 705<br>Wilmington, DE 19801 | Leased                    | 2010                           | 14   |
| Cypress Capital Management, LLC<br>-----<br>1220 Market Street<br>Suite 704<br>Wilmington, DE 19801     | Leased                    | 2010                           | 5  |

- (1) The net book value of all the Company's investment in premise and equipment totaled \$34.9 million at December 31, 2007.
- (2) Location of Corporate Headquarters
- (3) Includes Fairfax Branch office.
- (4) Includes the Company's education and development center.
- (5) Temporary location for branch until permanent branch is complete in February of 2008. The lease is month to month.
- (6) As of December 31, 2007, location was under construction. To be completed in February of 2008.
- (7) Temporary location for branch until permanent location is complete.
- (8) As of December 31, 2007, location was under construction. To be completed in September of 2008.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings to be disclosed under this item.

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, 2007 through the solicitation of proxies or otherwise.

PART II

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

Market for Registrant's Common Equity and Related Stockholder Matters

Our Common Stock is traded on The Nasdaq Stock Market (SM) under the symbol WSFS. At December 31, 2007, we had 1,252 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 as well as the quarterly dividends paid.

The closing market price of our common stock at December 31, 2007 was \$50.20.

|      |     | Stock Price Range |          |           |
|------|-----|-------------------|----------|-----------|
|      |     | Low               | High     | Dividends |
| 2007 | 4th | \$ 48.45          | \$ 68.33 | \$ 0.10   |
|      | 3rd | \$ 53.42          | \$ 68.81 | \$ 0.10   |
|      | 2nd | \$ 62.78          | \$ 69.00 | \$ 0.10   |
|      | 1st | \$ 60.91          | \$ 70.85 | \$ 0.08   |
|      |     |                   |          | \$ 0.38   |
| 2006 | 4th | \$ 60.00          | \$ 68.27 | \$ 0.08   |
|      | 3rd | \$ 57.22          | \$ 64.62 | \$ 0.08   |
|      | 2nd | \$ 57.34          | \$ 64.65 | \$ 0.08   |
|      | 1st | \$ 59.80          | \$ 64.75 | \$ 0.07   |
|      |     |                   |          | \$ 0.31   |

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### COMPARATIVE STOCK PERFORMANCE GRAPH

The graph and table which follow show the cumulative total return on our Common Stock over the last five years compared with the cumulative total return of the Dow Jones Total Market Index and the Nasdaq Bank Index over the same period as obtained from Bloomberg L.P. Cumulative total return on our Common Stock or the index equals the total increase in value since December 31, 2002, assuming reinvestment of all dividends paid into the Common Stock or the index, respectively. The graph and table were prepared assuming \$100 was invested on December 31, 2002 in our Common Stock and in each of the indexes. There can be no assurance that our future stock performance will be the same or similar to the historical stock performance shown in the graph below. We neither make nor endorse any predictions as to stock performance.

CUMULATIVE TOTAL SHAREHOLDER RETURN  
COMPARED WITH PERFORMANCE OF SELECTED INDEXES  
December 31, 2002 through December 31, 2007

[OBJECT OMITTED]]

Cumulative Total Return

|                              | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  |
|------------------------------|-------|-------|-------|-------|-------|-------|
| WSFS Financial Corporation   | \$100 | \$137 | \$184 | \$188 | \$207 | \$156 |
| Dow Jones Total Market Index | 100   | 128   | 142   | 148   | 168   | 175   |
| Nasdaq Bank Index            | 100   | 133   | 150   | 147   | 168   | 135   |

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### ITEM 6. SELECTED FINANCIAL DATA

|                                      | 2007<br>---- | 2006<br>---- | 2005<br>---- |
|--------------------------------------|--------------|--------------|--------------|
| (Dollars in Thousands, Except Per S  |              |              |              |
| At December 31,                      |              |              |              |
| Total assets                         | \$3,200,188  | \$2,997,396  | \$2,846,752  |
| Net loans (1)                        | 2,233,980    | 2,019,741    | 1,775,294    |
| Investment securities (2)            | 26,235       | 53,893       | 56,704       |
| Investment in reverse mortgages, net | 2,037        | 598          | 785          |
| Other investments                    | 46,615       | 41,615       | 46,466       |
| Mortgage-backed securities (2)       | 496,792      | 516,711      | 620,323      |
| Deposits                             | 1,827,161    | 1,756,348    | 1,446,236    |
| Borrowings (3)                       | 1,068,149    | 935,668      | 1,127,997    |
| Trust preferred borrowings           | 67,011       | 67,011       | 67,011       |
| Stockholders' equity                 | 211,330      | 212,059      | 181,975      |
| Number of full-service branches (4)  | 29           | 27           | 24           |
| For the Year Ended December 31,      |              |              |              |
| Interest income                      | \$189,477    | \$177,177    | \$136,022    |
| Interest expense                     | 107,468      | 99,278       | 62,380       |
| Noninterest income                   | 48,166       | 40,305       | 34,653       |



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|                                      |         |         |         |
|--------------------------------------|---------|---------|---------|
| Noninterest expenses                 | 82,031  | 69,314  | 62,877  |
| Income from continuing operations    | 29,649  | 30,441  | 27,856  |
| Net income                           | 29,649  | 30,441  | 27,856  |
| Earnings per share:                  |         |         |         |
| Basic:                               |         |         |         |
| Income from continuing operations    | \$ 4.69 | \$ 4.59 | \$ 4.10 |
| Net income                           | 4.69    | 4.59    | 4.10    |
| Diluted:                             |         |         |         |
| Income from continuing operations    | 4.55    | 4.41    | 3.89    |
| Net income                           | 4.55    | 4.41    | 3.89    |
| Interest rate spread                 | 2.80%   | 2.70%   | 2.91%   |
| Net interest margin                  | 3.09    | 2.98    | 3.13    |
| Return on average equity (5)         | 14.34   | 15.42   | 14.78   |
| Return on average assets (5)         | 0.98    | 1.03    | 1.05    |
| Average equity to average assets (5) | 6.87    | 6.68    | 7.10    |

- (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 other borrowed funds.
- (4) WSFS opened three branches and closed one branch in 2007, opened three branches in 2006, opened one branch in 2004, and opened two branches in 2003.
- (5) Based on continuing operations.

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

### OVERVIEW

WSFS Financial Corporation ("the Company," "our Company," "we," "our" or "us") is a thrift holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank"). Founded in 1832, we are one of the ten oldest banks in the United States continuously-operating under the same name. As a federal savings bank, which was formerly chartered as a state mutual savings bank, we enjoy broader investment powers than most other financial institutions. We have served the residents of the Delaware Valley for 176 years. We are the largest thrift institution headquartered in Delaware and the third largest financial institution in the state on the basis of total deposits traditionally garnered in-market. Our primary market area is the mid-Atlantic region of the United States, which is characterized by a diversified manufacturing and service economy. Our long-term strategy is to serve small and mid-size businesses through loans, deposits, investments,

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and related financial services, and to gather retail core deposits. Our strategic focus is to exceed customer expectations, deliver stellar service and build customer advocacy through highly trained, relationship oriented, friendly, knowledgeable, and empowered Associates.

We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In

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addition, we offer a variety of wealth management and personal trust services through Wilmington Advisors, which was formed during 2006. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximum. We serve our customers primarily from our main office, 29 retail banking offices, loan production offices and operations centers located in Delaware, southeastern Pennsylvania and Virginia and through our website at [www.wsfsbank.com](http://www.wsfsbank.com).

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc. ("Montchanin"). We also have one unconsolidated affiliate, WSFS Capital Trust III ("the Trust"). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., which markets various third-party insurance products and securities through the Bank's retail banking system.

Montchanin has one consolidated subsidiary, Cypress Capital Management, LLC ("Cypress"). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. Cypress had approximately \$515 million in assets under management at December 31, 2007.

### FORWARD-LOOKING STATEMENTS

Within this annual report and financial statements, management has included certain "forward-looking statements" concerning our future operations. Statements contained in this annual report which are not historical facts, are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. It is management's desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all "forward-looking statements." Management has used "forward-looking statements" to describe future plans and strategies including expectations of our future financial results. Management's ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Delaware, the mid-Atlantic region and the country as a whole, asset quality, loan growth, loan delinquency rates, operating risk, uncertainty of estimates in general, and changes in federal and state regulations, among other factors. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. Actual results may differ materially from management expectations. We do not undertake, and specifically disclaim any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### RESULTS OF OPERATIONS

WSFS Financial Corporation recorded net income of \$29.6 million or \$4.55 per diluted share for the year ended December 31, 2007, compared to \$30.4 million or \$4.41 per share and \$27.9 million or \$3.89 per share in 2006 and 2005, respectively.

**Net Interest Income.** Net interest income increased \$4.1 million, or 5%, to \$82.0 million in 2007 compared to \$77.9 million in 2006. The net interest margin for 2007 was 3.09%, up 0.11% from 2006. The overall improvement in the net interest margin over last year reflects loan growth and our continued efforts to refocus the mix of our balance sheet. Loans, with an average yield of 7.55%, increased \$168.7 million on average while mortgage-backed securities, with an average yield of 4.93%, declined \$99.4 million on average mostly due to

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scheduled repayments. In addition, interest-bearing deposits, with an average rate of 3.76%, increased \$219.3 million on average while FHLB advances, with an average rate of 4.97%, decreased \$210.1 million on average. The yield on earning assets increased 0.37% on average in comparison to 2006 while the rate on interest-bearing liabilities increased by 0.27% on average. Additionally, income from reverse mortgages increased \$1.3 million in comparison to 2006.

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Net interest income increased \$4.3 million, or 6%, to \$77.9 million in 2006 compared to \$73.6 million in 2005. The net interest margin of 2.98% for 2006 declined from 3.13% in 2005. This ratio was negatively impacted by a flattening yield curve as the rate on interest-bearing liabilities increased 1.18% while the rate on interest-earning assets only increased by 0.97%. Loans increased \$284.9 million on average while interest-bearing deposits increased by \$223.2 million on average.

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

| Year Ended December 31,                    | 2007 vs. 2006 |              |               | 20            |
|--|---------------|--------------|---------------|---------------|
|  | Volume        | Yield/Rate   | Net           | Volume        |
| (Dollars in Thousands)                     |               |              |               |               |
| <b>Interest Income:</b>                    |               |              |               |               |
| Commercial real estate loans               | \$ 4,281      | \$ (320)     | \$ 3,961      | \$ 4,549      |
| Residential real estate loans              | (1,244)       | 1,186        | (58)          | 2,312         |
| Commercial loans (1)                       | 10,318        | 475          | 10,793        | 10,832        |
| Consumer loans                             | 870           | 317          | 1,187         | 2,590         |
| Mortgage-backed securities                 | (4,898)       | 691          | (4,207)       | 703           |
| Investment securities                      | (1,638)       | 2,430        | 792           | (1,413)       |
| Other                                      | (601)         | 433          | (168)         | 97            |
| <b>Favorable (unfavorable)</b>             | <b>7,088</b>  | <b>5,212</b> | <b>12,300</b> | <b>19,670</b> |
| <b>Interest expense:</b>                   |               |              |               |               |
| <b>Deposits:</b>                           |               |              |               |               |
| Interest-bearing demand                    | 180           | 428          | 608           | 35            |
| Money market                               | 2,981         | 799          | 3,780         | 1,420         |
| Savings                                    | (248)         | (310)        | (558)         | (224)         |
| Retail time deposits                       | 4,003         | 3,045        | 7,048         | 3,302         |
| Jumbo certificates of deposits - nonretail | 927           | 149          | 1,076         | 1,586         |
| Brokered certificates of deposits          | 1,815         | 835          | 2,650         | 2,118         |
| FHLB of Pittsburgh advances                | (10,342)      | 3,025        | (7,317)       | 3,286         |
| Trust Preferred                            | 0             | (300)        | (300)         | 319           |

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|   |          |            |          |          |
|---|----------|------------|----------|----------|
| Other borrowed funds                    | 1,090    | 113        | 1,203    | (1,404)  |
| Cost of funding discontinued operations | 0        | 0          | 0        | 7        |
| Unfavorable (favorable)                 | 406      | 7,784      | 8,190    | 10,445   |
| Net change, as reported                 | \$ 6,682 | \$ (2,572) | \$ 4,110 | \$ 9,225 |

(1) The tax-equivalent income adjustment is related to commercial loans.

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

| Year Ended December 31,   | 2007            |          |               | 2006            |          |               |
|---|-----------------|----------|---------------|-----------------|----------|---------------|
|   | Average Balance | Interest | Yield/Rate(1) | Average Balance | Interest | Yield/Rate(1) |
| (Dollars in Thousands)  |                 |          |               |                 |          |               |
| <b>Assets</b>   |                 |          |               |                 |          |               |
| Interest-earning assets:  |                 |          |               |                 |          |               |
| Loans (2) (3):  |                 |          |               |                 |          |               |
| Commercial real estate loans  | \$ 687,614      | \$56,056 | 8.15%         | \$ 635,133      | \$52,095 | 8.20          |
| Residential real estate loans                                       | 459,043         | 26,451   | 5.76          | 481,308         | 26,509   | 5.51          |
| Commercial loans  | 709,507         | 56,766   | 8.05          | 582,546         | 45,973   | 7.97          |
| Consumer loans  | 270,518         | 20,239   | 7.48          | 258,946         | 19,052   | 7.36          |
| Total loans   | 2,126,682       | 159,512  | 7.55          | 1,957,933       | 143,629  | 7.39          |
| Mortgage-backed securities (4)                                      | 491,650         | 24,237   | 4.93          | 591,021         | 28,444   | 4.81          |
| Investment securities (4)   | 29,130          | 3,360    | 11.53         | 55,004          | 2,568    | 4.67          |
| Other interest-earning assets                                       | 40,137          | 2,368    | 5.90          | 51,144          | 2,536    | 4.96          |
| Total interest-earning assets                                       | 2,687,599       | 189,477  | 7.09          | 2,655,102       | 177,177  | 6.72          |
| Allowance for loan losses   | (28,192)        |          |               | (26,491)        |          |               |
| Cash and due from banks   | 70,387          |          |               | 57,771          |          |               |
| Cash in non-owned ATMs  | 158,091         |          |               | 153,060         |          |               |
| Bank-owned life insurance   | 56,307          |          |               | 53,137          |          |               |
| Loans, operating leases and other assets of discontinued operations | -               |          |               | -               |          |               |
| Other noninterest-earning assets                                    | 67,711          |          |               | 63,793          |          |               |
| Total assets  | \$3,011,903     |          |               | \$2,956,372     |          |               |
| <b>Liabilities and Stockholders' Equity</b>                         |                 |          |               |                 |          |               |
| Interest-bearing liabilities:                                       |                 |          |               |                 |          |               |
| Interest-bearing deposits:  |                 |          |               |                 |          |               |
| Interest-bearing demand   | \$ 148,039      | \$ 1,393 | 0.94%         | \$ 123,599      | 785      | 0.64          |
| Money market  | 312,192         | 11,870   | 3.80          | 232,418         | 8,090    | 3.48          |
| Savings   | 211,453         | 1,679    | 0.79          | 240,426         | 2,237    | 0.93          |

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|   |             |           |       |             |          |       |
|---|-------------|-----------|-------|-------------|----------|-------|
| Retail time deposits  | 476,159     | 22,357    | 4.70  | 384,654     | 15,309   | 3.98  |
|   | -----       |           |       | -----       |          |       |
| Total interest-bearing retail deposits                              | 1,147,843   | 37,299    | 3.25  | 981,097     | 26,421   | 2.69  |
| Jumbo certificates of deposit-nonretail                             | 98,452      | 5,176     | 5.26  | 80,691      | 4,100    | 5.08  |
| Brokered certificates of deposit                                    | 277,860     | 14,836    | 5.34  | 243,070     | 12,186   | 5.01  |
|   | -----       |           |       | -----       |          |       |
| Total interest-bearing deposits                                     | 1,524,155   | 57,311    | 3.76  | 1,304,858   | 42,707   | 3.27  |
| FHLB of Pittsburgh advances   | 765,974     | 38,561    | 4.97  | 976,101     | 45,878   | 4.64  |
| Trust preferred borrowings  | 67,011      | 4,753     | 7.00  | 67,011      | 5,053    | 7.44  |
| Other borrowed funds  | 147,251     | 6,843     | 4.65  | 123,800     | 5,640    | 4.56  |
| Cost of funding discontinued operations                             | -           | -         |       | -           | -        |       |
|   | -----       |           |       | -----       |          |       |
| Total interest-bearing liabilities                                  | 2,504,391   | 107,468   | 4.29  | 2,471,770   | 99,278   | 4.02  |
|   | -----       |           |       | -----       |          |       |
| Noninterest-bearing demand deposits                                 | 272,964     |           |       | 262,838     |          |       |
| Other noninterest-bearing liabilities                               | 27,737      |           |       | 24,330      |          |       |
| Minority interest   | 38          |           |       | 84          |          |       |
| Stockholders' equity  | 206,773     |           |       | 197,350     |          |       |
|   | -----       |           |       | -----       |          |       |
| Total liabilities and stockholders' equity                          | \$3,011,903 |           |       | \$2,956,372 |          |       |
|   | =====       |           |       | =====       |          |       |
| Excess of interest-earning assets over interest-bearing liabilities | \$ 183,208  |           |       | \$ 183,332  |          |       |
|   | =====       |           |       | =====       |          |       |
| Net interest and dividend income                                    |             | \$ 82,009 |       |             | \$77,899 |       |
|   |             | =====     |       |             | =====    |       |
| Interest rate spread  |             |           | 2.80% |             |          | 2.70% |
|   |             |           | ====  |             |          | ====  |
| Net interest margin   |             |           | 3.09% |             |          | 2.98% |
|   |             |           | ====  |             |          | ====  |

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale, trading securities and reverse mortgages.

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Provision for Loan Losses. We maintain an allowance for loan losses at an appropriate level based on management's assessment of the estimable and probable losses in the loan portfolio, pursuant to accounting literature, which is discussed further in the Nonperforming Assets section of Management's Discussion and Analysis. Management's evaluation is based upon a review of the portfolio and requires significant judgement. For the year ended December 31, 2007, we recorded a provision for loan losses of \$5.0 million compared to \$2.7 million in 2006 and \$2.6 million in 2005. In 2007, the provision was primarily affected by: (1) continued significant loan growth; (2) migration of certain loans toward lower credit grades as we continue to assess our exposure in the current lending environment; partially offset by (3) a lower level of estimated losses resulting from an improvement in the methodology for estimating loan losses using historical data adjusted for current conditions and trends. The improvement in this methodology resulted in a net reduction of approximately \$6.8 million from the estimate previously used.

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Noninterest Income. Noninterest income increased \$7.9 million to \$48.2 million in 2007, or 16%, from \$40.3 million in 2006. This is attributable to a \$3.2 million increase in deposit service charges as we continue to benefit from increased deposit accounts and offering additional fee-based services. The increase also includes a \$1.1 million non-recurring gain related to the sale of our former headquarters building and an \$882,000 gain from the sale of our credit card portfolio. Credit/debit card and ATM income also increased \$915,000 as a result of increased volumes of cash in non-owned ATMs and higher bailment fees earned on this cash. In 2007 we also recorded two offsetting \$6.0 million items. Both occurred during the fourth quarter and resulted in a gain and an expense recognized from the donation of a N.C. Wyeth mural, Apotheosis of the Family, which was located in our former headquarters. During 2006, we recognized a loss of \$2.0 million on the sale of below-market yielding securities. This sale was part of our efforts to improve our earning asset mix and return on assets.

Noninterest income increased \$5.7 million to \$40.3 million in 2006, or 16%, from \$34.7 million in 2005. The largest increase was attributable to \$3.8 million in card and ATM income as a result of increased volumes of cash in non-owned ATMs and higher bailment rates earned on this cash. Deposit service charges also increased \$2.2 million as a result of growth in deposit accounts as well as additional fee-based services we provided. During 2006, noninterest income was impacted by unanticipated income of \$1.8 million in our investment in Bank-Owned Life Insurance (BOLI) resulting from a death benefit we received. Also, during 2006, we recognized a loss of \$2.0 million on the sale of below-market yielding securities. This sale was part of our efforts to improve our earning asset mix and return on assets.

Noninterest Expenses. Noninterest expenses for the year ended 2007 were \$82.0 million, an increase of 18%, or \$12.7 million over \$69.3 million recognized in 2006. The increase reflects our continued growth efforts in 2007 and included the opening of three branch offices, one branch renovation, and the relocation of our corporate headquarters. As a result of this growth, the number of full-time Associates grew to 599, resulting in increased salaries, benefits and other compensation of \$4.3 million. This growth also affected both occupancy expense, which increased by \$2.8 million, and other operating expenses, which increased by \$1.9 million. During 2007 our marketing expenses increased \$1.2 million, as a multi-year brand campaign was launched with the intent to leverage our Stellar Service model with the message "We Stand For Service." Also during 2007, we recorded a \$1.2 million expense related to the Visa antitrust lawsuit settlement with American Express and other Visa-related litigation. We are not a party to any of these lawsuits and our expense solely results from our being a member of Visa. WSFS expects the proceeds from the anticipated share redemption for its ownership interest in Visa's planned initial public offering will be applied to this charge.

Noninterest expenses increased \$6.4 million to \$69.3 million in 2006, or 10%, from \$62.9 million in 2005. Salaries, benefits and other compensation increased \$4.2 million as a result of our continued growth including the opening of three branch offices and two branch renovations/relocations in 2006 and the formation of the Wealth Management Division. The number of full-time Associates increased from 515 in 2005 to 573 in 2006. The growth was also reflected in higher equipment and other operating expenses with an increase of \$514,000 in equipment expense and \$1.7 million in other operating expenses. Additionally, \$1.5 million of the increase in salaries, benefits and other compensation was the result of the 2006 implementation of the Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment.

Income Taxes. We recorded a \$13.5 million tax provision for the year ended December 31, 2007 compared to \$15.7 million and \$14.8 million for the years

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ended December 31, 2006 and 2005, respectively. The effective tax rates for the years ended December 31, 2007, 2006 and 2005 were 31.2%, 34.0% and 34.8%, respectively. The reduction in the 2007 effective tax rate

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is primarily the result of a \$1.7 million tax benefit related to the previously discussed donation of our N.C. Wyeth mural. The provision for income taxes includes federal, state and local income taxes that are currently payable or deferred because of temporary differences between the financial reporting bases and the tax reporting bases of the assets and liabilities.

We analyze our projection of taxable income and make adjustments to our provision for income taxes accordingly. For additional information regarding our tax provision and net operating loss carryforwards, see Note 12 to the Consolidated Financial Statements.

### FINANCIAL CONDITION

Total assets increased \$202.8 million, or 7%, during 2007 to \$3.2 billion. This increase was predominantly due to growth in net loans, which grew \$214.2 million, or 11%, during 2007. This increase was partially offset by a decrease of \$26.2 million in investment securities and \$19.9 million in mortgage-backed securities. Total liabilities increased \$203.6 million during the year to \$3.0 billion at December 31, 2007. This increase was primarily the result of an increase in customer deposits of \$135.5 million, or 10%, during 2007, and an increase in total borrowings of \$132.5 million, or 13%. Partially offsetting these increases was a \$52.0 million, or 17%, decrease in brokered deposits.

**Cash in non-owned ATMs.** During 2007, cash in non-owned ATMs managed by CashConnect, our ATM unit, increased \$16.4 million, or 10%. This increase was the result of an increase in the number of ATMs serviced by CashConnect from 7,458 at December 31, 2006 to 9,976 at December 31, 2007. Of these, 325 ATMs were WSFS owned and operated during 2007.

**Mortgage-backed Securities.** Investments in mortgage-backed securities decreased \$19.9 million during 2007 to \$496.8 million. During 2007, we sold \$2.6 million of our mortgage-backed securities. The weighted average duration of the mortgage-backed securities was 2.8 years at December 31, 2007.

**Loans, net.** Net loans increased \$214.2 million, or 11%, during 2007. This included increases of \$143.6 million, or 22%, in commercial loans, \$78.8 million, or 12%, in commercial real estate loans, and \$14.8 million, or 6%, in consumer loans. This increase was partially offset by a planned decrease of \$26.5 million, or 6%, in residential mortgage loans.

**Customer Deposits.** Customer deposits increased \$135.5 million, or 10%, during 2007 to \$1.5 billion. Customer time deposits (CDs) increased \$69.8 million, or 16%, in 2007. In addition, core deposit relationships (demand deposits, money market and savings accounts) increased \$65.7 million, or 7%, during the year. The table below depicts the changes in customer deposits over the last three years:

| Year Ended December 31, |       |       |
|-------------------------|-------|-------|
| 2007                    | 2006  | 2005  |
| -----                   | ----- | ----- |
| -----                   | ----- | ----- |
| (In Millions)           |       |       |

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|                           |           |           |           |
|---------------------------|-----------|-----------|-----------|
| Beginning balance.....    | \$1,343.7 | \$1,193.9 | \$1,052.2 |
| Interest credited.....    | 32.4      | 26.3      | 11.4      |
| Deposit inflows, net..... | 103.1     | 123.5     | 130.3     |
|                           | -----     | -----     | -----     |
| Ending balance.....       | \$1,479.2 | \$1,343.7 | \$1,193.9 |
|                           | =====     | =====     | =====     |

Borrowings and Brokered Certificates of Deposit. Borrowings and brokered certificates of deposit increased by \$80.4 million, or 6%, during 2007. This increase was primarily the result of an increase in FHLB advances of \$114.3 million, or 15%. In addition, other borrowed funds increased \$16.6 million, or 21%, and Federal funds purchased and securities sold under agreements to repurchase increased \$1.6 million, or 2%, in 2007. Partially offsetting these increases was a \$52.0 million, or 17%, decrease in brokered deposits.

Stockholders' Equity. Stockholders' equity decreased \$729,000 to \$211.3 million at December 31, 2007. This decrease was mainly due to our purchase of 564,100 shares of treasury stock for \$36.2 million. At December 31, 2007, we held 9.5 million

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shares of our common stock as treasury stock. We intend to continue repurchasing shares depending on stock price and alternative uses of capital. In addition, we declared cash dividends totaling \$2.4 million during 2007. These decreases were partially offset by a \$34.4 million increase in total comprehensive income, including \$29.6 million in net income, and a \$2.0 million increase related to the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"). Lastly, an increase of \$1.3 million resulted from the exercise of common stock options.

### ASSET/LIABILITY MANAGEMENT

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

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

The matching of assets and liabilities may be analyzed 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 repricing within a defined period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets repricing within a defined period.

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The repricing and maturities of our interest-rate sensitive assets and interest-rate sensitive liabilities at December 31, 2007 are set forth in the following table:

|  | Less than One<br>Year | One to<br>Five Years |
|--|-----------------------|----------------------|
| -----  |                       |                      |
| (Dollars in Thousands) Interest-rate sensitive assets:   |                       |                      |
| Real estate loans (1) (2)  | \$ 763,760            | \$300,366            |
| Commercial loans (2)   | 609,190               | 120,704              |
| Consumer loans (2)   | 138,194               | 56,071               |
| Mortgage-backed securities   | 153,652               | 322,951              |
| Loans held-for-sale (2)  | 2,417                 | -                    |
| Investment securities  | 66,410                | 5,867                |
| Interest-bearing deposits in other banks   | 1,078                 | -                    |
|  | -----                 | -----                |
|  | 1,734,701             | 805,959              |
| -----  |                       |                      |
| Interest-rate sensitive liabilities:   |                       |                      |
| Money market and interest-bearing demand deposits  | 166,353               | -                    |
| Savings deposits   | 55,188                | -                    |
| Retail time deposits   | 460,944               | 54,652               |
| Jumbo certificates of deposit  | 98,581                | 177                  |
| Brokered certificates of deposit   | 163,571               | -                    |
| FHLB advances  | 747,901               | 141,579              |
| Trust preferred borrowings   | 67,011                | -                    |
| Other borrowed funds   | 83,204                | 25,000               |
|  | -----                 | -----                |
|  | 1,842,753             | 221,408              |
| -----  |                       |                      |
| (Deficiency) excess of interest-rate sensitive<br>assets over interest-rate liabilities<br>("interest-rate sensitive gap") | \$ (108,052)          | \$584,551            |
| -----  |                       |                      |
| One-year interest-rate sensitive assets/<br>Interest-rate sensitive liabilities  | 94.14%                |                      |
| One-year interest-rate sensitive gap as a<br>Percent of total assets   | (3.38)%               |                      |

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

(2) Loan balances exclude deferred fees and costs.

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

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occur as we adjust our interest-sensitivity position throughout the year.

To provide a more accurate position of our one-year gap, certain deposit classifications are based on the interest-rate sensitive attributes and not on the contractual repricing characteristics of these deposits. Management estimates, based on historical trends of our deposit accounts, that 35% of money market and 13% of interest-bearing demand deposits are sensitive to interest rate changes and that 22% to 36% of savings deposits are sensitive to interest rate changes. Accordingly, these interest-sensitive portions are classified in the less than one-year category with the remainder in the over five-year category.

Deposit rates other than time deposit rates are variable, and changes in deposit rates are generally subject to local market conditions and management's discretion and are not indexed to any particular rate.

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### REVERSE MORTGAGES

We hold an investment in reverse mortgages of \$2.0 million at December 31, 2007 representing a participation in reverse mortgages with a third party.

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. Reverse mortgages are nonrecourse obligations, which means that the loan repayments are generally limited to the net sale proceeds of the borrower's residence.

We account for our investment in reverse mortgages by estimating the value of the future cash flows on the reverse mortgages at a rate deemed appropriate for these mortgages, based on the market rate for similar collateral. Actual cash flows from the maturity of these mortgage loans can result in significant volatility in the recorded value of reverse mortgage assets. As a result, income varies significantly from reporting period to reporting period. For the year ended December 31, 2007, we earned \$2.0 million in interest income on reverse mortgages as compared to \$684,000 in 2006 and \$678,000 in 2005.

The projected cash flows depend on assumptions about life expectancy of the mortgagee and the future changes in collateral values. Projecting the changes in collateral values is the most significant factor impacting the volatility of reverse mortgage values. Our current assumptions include a short-term annual appreciation rate of -8.0% in the first year, and a long-term annual appreciation rate of 0.5% in future years. If the long-term appreciation rate was increased to 1.5%, the resulting impact on income would have been \$106,000. Conversely, if the long-term appreciation rate was decreased to -0.5%, the resulting impact on income would have been \$(89,000).

We also hold \$12.4 million in BBB+ rated mortgage-backed securities classified as trading and options to acquire up to 49.9% of Class "O" Certificates issued in connection with securities consisting of a portfolio of reverse mortgages we previously owned. At the time of the securitization, the third-party securitizer retained 100% of the Class "O" Certificates from the securitization. These Class "O" Certificates have no priority over other classes of Certificates under the Trust and no distributions will be made on the Class "O" Certificates until, among other conditions, the principal amount of each other class of notes has been reduced to zero. The underlying assets, the reverse mortgages, are very long-term assets. Therefore, any cash flow that

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might inure to the holder of the Class "O" Certificates is not expected to occur until many years in the future. Additionally, we can exercise our option on 49.9% of the Class "O" Certificates in up to five separate increments for an aggregate purchase price of \$1.0 million any time between January 1, 2004 and the termination of the Securitization Trust. The option to purchase the Class "O" Certificates does not meet the definition of a derivative under SFAS No. 133, Accounting for Derivative and Hedging Activities and is carried in our financial statements at cost.

During 2006, we formed a new reverse mortgage initiative. While our activity during the past two years has been limited to acting as a correspondent for these loans, it is our intention to originate and underwrite our own reverse mortgages in the future. We expect to sell most of these loans and do not intend to hold them in our portfolio. These reverse mortgages are government approved and insured.

### NONPERFORMING ASSETS

Nonperforming assets, which include nonaccruing loans, nonperforming real estate investments and assets acquired through foreclosure, can negatively affect our 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 defined as loans contractually past due 90 days or more as to principal or interest payments but which remain in accrual status because they are considered well secured and in the process of collection.

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

| December 31,                        | 2007     | 2006     | 2005     | 2004     |
|-------------------------------------|----------|----------|----------|----------|
| -----                               |          |          |          |          |
| (Dollars in Thousands)              |          |          |          |          |
| Nonaccruing loans:                  |          |          |          |          |
| Commercial                          | \$17,187 | \$ 1,282 | \$ 925   | \$ 1,595 |
| Consumer                            | 835      | 557      | 155      | 291      |
| Commercial mortgages                | 3,873    | 500      | 727      | 909      |
| Residential mortgages               | 2,417    | 1,493    | 1,567    | 1,601    |
| Construction                        | 6,794    | -        | 36       | -        |
| Total nonaccruing loans             | 31,106   | 3,832    | 3,410    | 4,396    |
| Assets acquired through foreclosure | 703      | 388      | 59       | 217      |
| Total nonperforming assets          | \$31,809 | \$ 4,220 | \$ 3,469 | \$ 4,613 |

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Past due loans:

|                                     |               |               |               |               |           |
|-------------------------------------|---------------|---------------|---------------|---------------|-----------|
| Residential mortgages               | \$ 388        | \$ 219        | \$ 327        | \$ 703        | \$        |
| Commercial and commercial mortgages | 14            | 3             | --            | --            |           |
| Consumer                            | 173           | 29            | 59            | 104           |           |
| <b>Total past due loans</b>         | <b>\$ 575</b> | <b>\$ 251</b> | <b>\$ 386</b> | <b>\$ 807</b> | <b>\$</b> |

|   |        |         |         |         |
|---|--------|---------|---------|---------|
| Ratio of nonaccruing loans to total loans (1)         | 1.38%  | 0.19%   | 0.19%   | 0.28%   |
| Ratio of allowance for loan losses to gross loans (1) | 1.12%  | 1.34%   | 1.41%   | 1.56%   |
| Ratio of nonperforming assets to total assets         | 0.99%  | 0.14%   | 0.12%   | 0.18%   |
| Ratio of loan loss allowance to nonaccruing loans (2) | 78.80% | 705.32% | 709.47% | 524.05% |

(1) Total loans exclude loans held-for-sale.

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

Total nonperforming assets increased \$27.6 million during 2007. As a result, nonperforming assets as a percentage of total assets increased from 0.14% at December 31, 2006 to 0.99% at December 31, 2007. This increase results primarily from two large lending relationships being placed on nonaccrual during 2007. The first is a \$10.3 million lending relationship consisting of \$7.0 million in construction loans and \$3.3 million in commercial mortgages. We charged-off \$1.4 million against this relationship during the fourth quarter of 2007. The second is an asset-based loan for \$18.7 million that was subsequently sold in March 2008 at a loss. The amount of this loss has been charged against this loan as of December 31, 2007. Based on the sale, we charged-off \$3.7 million from our allowance for loan losses at December 31, 2007. The relationship also included unused letters of credit amounting to \$475,000. We increased our contingency reserve for losses on the letters of credit associated with this relationship by \$184,000 at December 31, 2007.

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

| Year Ended December 31, | 2007      | 2006     | 2005     |
|-------------------------|-----------|----------|----------|
| (In Thousands)          |           |          |          |
| Beginning balance       | \$ 4,220  | \$ 3,469 | \$ 4,613 |
| Additions               | 37,017    | 5,697    | 5,062    |
| Collections             | (3,029)   | (3,916)  | (4,467)  |
| Transfers to accrual    | (295)     | (453)    | (398)    |
| Charge-offs/write-downs | (6,104)   | (577)    | (1,341)  |
| Ending balance          | \$ 31,809 | \$ 4,220 | \$ 3,469 |

Allowance for Loan Losses. We maintain allowances for credit losses and charge losses to these allowances when such losses are realized. The determination of the allowance for loan losses requires significant judgement reflecting

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management's best estimate of probable loan losses related to specifically identified loans as well as probable loan losses in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios.

We established our loan loss allowance in accordance with guidance provided in the Securities and Exchange Commission's Staff Accounting Bulletin

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102 (SAB 102). Its methodology for assessing the appropriateness of the allowance consists of several key elements which include: specific allowances for identified problem loans; formula allowances for commercial and commercial real estate loans; and allowances for pooled homogenous loans.

Specific reserves are established for certain loans in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss has been incurred.

The formula allowances for commercial and commercial real estate loans are calculated by applying estimated loss factors to outstanding loans based on the internal risk grade of loans. For low risk commercial and commercial real estate loans the portfolio is pooled, based on internal risk grade, and estimates are based on a ten-year net charge-off history. Higher risk and criticized loans have loss factors that are derived from an analysis of both the probability of default and the probability of loss should default occur. Loss adjustment factors are applied based on criteria discussed below. As a result, changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance.

Pooled loans are loans that are usually smaller, not-individually-graded and homogenous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are based on a ten-year net charge-off history. The average loss allowance per homogenous pool is based on the product of average annual historical loss rate and the estimated duration of the pool multiplied by the pool balances. These separate risk pools are assigned a reserve for losses based upon this historical loss information and loss adjustment factors.

Historical loss adjustment factors are based upon our evaluation of various current conditions including those listed below:

- o General economic and business conditions affecting our key lending areas,
- o Credit quality trends,
- o Recent loss experience in particular segments of the portfolio,
- o Collateral values and loan-to-value ratios,
- o Loan volumes and concentrations, including changes in mix,
- o Seasoning of the loan portfolio,
- o Specific industry conditions within portfolio segments,
- o Bank regulatory examination results, and
- o Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions and risks associated with individual problem loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for such losses. We also give consideration to the results of these regulatory agency examinations.

During 2007, the provision for loan losses were affected by: (1) our continued significant loan growth; (2) migration of certain loans toward lower credit grades as we continue to assess our exposure in the current lending environment; partially offset by (3) a lower level of estimated losses resulting from an improvement in the methodology for estimating loan losses using historical data adjusted for current conditions and trends. The improvement in this methodology resulted in a reduction of approximately \$6.8 million, net, from the estimate previously used.

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

|   | Year Ended December 31, | 2007     | 2006     |
|---|-------------------------|----------|----------|
| (Dollars in Thousands)  |                         |          |          |
| Beginning balance   |                         | \$27,384 | \$25,384 |
| Provision for loan losses   |                         | 5,021    | 2,735    |
| Charge-offs:  |                         |          |          |
| Residential real estate   |                         | 41       | 75       |
| Commercial real estate (1)  |                         | 1,398    | -        |
| Commercial  |                         | 4,379    | 470      |
| Overdrafts (2)  |                         | 1,441    | 607      |
| Consumer  |                         | 790      | 483      |
| Total charge-offs   |                         | 8,049    | 1,635    |
| Recoveries:   |                         |          |          |
| Residential real estate   |                         | 11       | 14       |
| Commercial real estate (1)  |                         | 127      | 170      |
| Commercial  |                         | 173      | 343      |
| Overdrafts (2)  |                         | 446      | 217      |
| Consumer  |                         | 139      | 156      |
| Total recoveries  |                         | 896      | 900      |
| Net charge-offs   |                         | 7,153    | 735      |
| Ending balance  |                         | \$25,252 | \$27,384 |
| Net charge-offs to average gross loans<br>outstanding, net of unearned income |                         | 0.34%    | 0.04%    |

(1) Includes commercial mortgage and construction loans.

(2) Prior to April 2006, overdraft charge-offs/recoveries were recognized in other operating expense.

The allowance for loan losses is allocated by major 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 a guarantee of where future losses may occur. While we have allocated the allowance for loan losses by portfolio type in the following table, the entire reserve is available for any loan portfolio to utilize. The allocation of the allowance for loan losses by portfolio type at the end of each of the last five fiscal years, and the percentage of outstanding loans in each category to total gross outstanding, at such dates follow:

| December 31, | 2007 | 2006 | 2005 |
|--------------|------|------|------|
|--------------|------|------|------|

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|                         | Amount   | Percent | Amount   | Percent | Amount   | Percent |
|-------------------------|----------|---------|----------|---------|----------|---------|
| -----                   |          |         |          |         |          |         |
| (Dollars in Thousands)  |          |         |          |         |          |         |
| Residential real estate | \$ 1,304 | 19.8%   | \$ 1,645 | 23.1%   | \$ 1,632 | 25.4%   |
| Commercial real estate  | 12,151   | 32.9%   | 11,343   | 32.5%   | 10,978   | 32.7%   |
| Commercial              | 8,088    | 35.0%   | 11,019   | 31.5%   | 9,471    | 28.3%   |
| Consumer                | 3,709    | 12.3%   | 3,377    | 12.9%   | 3,300    | 13.6%   |
| -----                   |          |         |          |         |          |         |
| Total                   | \$25,252 | 100.0%  | \$27,384 | 100.0%  | \$25,381 | 100.0%  |
| -----                   |          |         |          |         |          |         |

### LIQUIDITY

We manage our liquidity risk and funding needs through our treasury function and our Asset/Liability Committee. Historically, we have had success in growing our loan portfolio. For example, during the year ended December 31, 2007, net loan growth resulted in the use of \$221.2 million in cash. The loan growth was primarily the result of our continued success increasing corporate and small business lending. We expect this trend to continue. While our loan-to-deposit ratio has been well above 100% for many years, management has significant experience managing its funding needs through borrowings and deposit growth.

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

- o Deposit growth,
- o Borrowing from the FHLB,
- o The brokered deposit market,
- o Other borrowings such as repurchase agreements,
- o Cash flow from securities, loan sales and repayments, and
- o Our ability to generate positive cash flows from our operations.

Our current branch expansion and renovation program is focused on expanding our retail footprint in Delaware and attracting new customers to provide additional deposit growth. Customer deposit growth was strong, equaling \$135.5 million, or 10%, during 2007.

Our portfolio of high-quality, liquid investments, primarily short-duration AAA-rated, mortgage-backed securities and Agency notes also provide a source of cash flow to meet current cash needs. If needed, portions of this portfolio, as well as portions of the loan portfolio, could be sold to provide cash to fund new loans. During the year ended December 31, 2007, \$32.7 million in cash was provided by operating activities.

We have a policy that separately addresses liquidity, and management monitors our adherence to policy limits. As part of the liquidity management process, we also monitor our available wholesale funding capacity. At December 31, 2007, we had \$294.6 million in funding capacity at the Federal Home Loan Bank of Pittsburgh and \$551.2 million in estimated funding capacity in brokered deposits. Liquidity risk management is a primary area of focus for us and is subject to examination by the OTS.

We have not used and have no intention of using any significant off balance sheet financing arrangement for liquidity management purposes. Our

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financial instruments with off balance sheet risk are limited to obligations to fund loans to customers pursuant to existing commitments, obligations of letters of credit and an interest rate cap which limits the interest rate exposure on \$50.0 million of trust preferred floating rate debt. In addition, we have not had and have no intention to have any significant transactions, arrangements or other relationships with any unconsolidated, limited purpose entities that could materially affect our liquidity or capital resources.

### CAPITAL RESOURCES

Federal laws, among other things, require the OTS to mandate uniformly applicable capital standards for all savings institutions. These standards currently require institutions such as us 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 total "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, 2007, we are classified as well-capitalized, the highest regulatory defined level, and in compliance with all regulatory capital requirements. Additional information concerning our regulatory capital compliance is included in Note 10 to the Consolidated Financial Statements.

Since 1996, the Board of Directors has approved several stock repurchase programs to acquire common stock outstanding. As part of these programs, we acquired approximately 564,100 shares in 2007 and 103,400 shares in 2006. At December 31, 2007, we held 9.5 million shares of our common stock as treasury shares. We intend to continue repurchasing

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shares depending on stock price and alternative uses of capital. At December 31, 2007, we had 579,500 shares remaining under our current share repurchase authorization.

### OFF BALANCE SHEET ARRANGEMENTS

We have no off balance sheet arrangements that currently have, or are reasonably likely to have, a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. Additional information concerning our off balance sheet arrangements is included in Note 14 to the Consolidated Financial Statements.

### CONTRACTUAL OBLIGATIONS

At December 31, 2007, we had contractual obligations relating



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to operating leases, long-term debt, data processing and credit obligations. These obligations are summarized below. See Notes 7, 9 and 14 to the Consolidated Financial Statements for further discussion.

|                             | Total       | Less than<br>1 Year | 1-3 Year |
|-----------------------------|-------------|---------------------|----------|
| -----                       |             |                     |          |
| (In Thousands)              |             |                     |          |
| Operating lease obligations | \$ 44,137   | \$ 4,562            | \$ 8,42  |
| Long-term debt obligations  | 965,291     | 577,900             | 278,07   |
| Data processing contracts   | 8,352       | 3,848               | 4,49     |
| Credit obligations          | 586,252     | 586,252             |          |
| -----                       |             |                     |          |
| Total                       | \$1,604,032 | \$1,172,562         | \$290,99 |
| -----                       |             |                     |          |

### IMPACT OF INFLATION AND CHANGING PRICES

Our Consolidated Financial Statements have been prepared in accordance with U.S. 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 our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or the same extent as the price of goods and services.

### RECENT LEGISLATION

In February 2006, Congress passed the Federal Deposit Insurance Reform Act of 2005 (FDIRA). This legislation merged the Bank Insurance Fund and the Savings Association Insurance Fund into one fund, increased insurance coverage for retirement accounts to \$250,000, adjusted the maximum deposit insurance for inflation after March 31, 2010 and gave the FDIC greater flexibility in setting insurance assessments. As part of the FDIRA-2005, the Bank had been granted a one-time credit of \$1.0 million for utilization against future FDIC insurance premiums. During 2007, we used \$709,000 of this credit to offset premiums.

### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these Financial Statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those related to the

allowance for loan losses, contingencies (including indemnifications), and

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deferred taxes. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgements on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following are critical accounting policies that involve more significant judgements and estimates:

### Allowance for Loan Losses

We maintain allowances for credit losses and charge losses to these allowances when realized. The determination of the allowance for loan losses requires significant judgement reflecting our best estimate of probable loan losses related to specifically identified loans as well as those in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios, with consideration given to evaluations resulting from examinations performed by regulatory authorities.

### Contingencies (Including Indemnifications)

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

We maintain a loss contingency for standby letters of credit and charge losses to this reserve when such losses are realized. The determination of the loss contingency for standby letters of credit requires significant judgement reflecting management's best estimate of probable losses.

The Bank, as successor to originators of reverse mortgages is, from time to time, involved in arbitration or litigation with various parties including borrowers or the heirs of borrowers. Because reverse mortgages are a relatively new and uncommon product, there can be no assurances about how the courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of the Bank's reverse mortgage obligations.

### Deferred Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109), which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We have assessed our valuation allowances on deferred income taxes resulting from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences.

### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within

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those fiscal years. We do not believe the adoption of SFAS 157 will have a material impact on our Consolidated Financial Statements in 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. This will become effective for us on January 1, 2008. We do not believe the adoption of SFAS 159 will have a material impact on our Consolidated Financial Statements in 2008.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). This Statement changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption. We have not yet determined whether there will be a material impact on our Consolidated Financial Statements upon adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51 (SFAS 160). This Statement requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We do not believe the adoption of SFAS 160 will have a material impact on our Consolidated Financial Statements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in our lending, investing and funding activities. To that end, we actively monitor and manage our interest rate risk exposure. One measure required to be performed by the Office of Thrift Supervision (OTS)-regulated institutions is the test specified by OTS Thrift Bulletin No. 13A, Management of Interest Rate Risk, Investment Securities and Derivatives Activities. This test measures the impact on the net portfolio value of an immediate change in interest rates in 100 basis point increments. Net portfolio value is defined as the net present value of the estimated cash flows from assets and liabilities as a percentage of the net present value of assets. The following table is the estimated impact of immediate changes in interest rates on our net interest margin and net portfolio value at the specified levels at December 31, 2007 and 2006, calculated in compliance with Thrift Bulletin No. 13A:

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| December 31,                           | 2007                                |                         | 2006                                |                         |
|--|-------------------------------------|-------------------------|-------------------------------------|-------------------------|
| Change in Interest Rate (Basis Points) | % Change in Net Interest Margin (1) | Net Portfolio Value (2) | % Change in Net Interest Margin (1) | Net Portfolio Value (2) |
| +300                                   | +2%                                 | 9.70%                   | -1%                                 | 7.89%                   |
| +200                                   | +2%                                 | 10.27%                  | -1%                                 | 8.46%                   |
| +100                                   | +1%                                 | 10.72%                  | 0%                                  | 8.99%                   |
| 0                                      | 0%                                  | 11.01%                  | 0%                                  | 9.66%                   |
| -100                                   | -1%                                 | 11.04%                  | +2%                                 | 9.03%                   |
| -200                                   | -2%                                 | 11.10%                  | +1%                                 | 9.04%                   |
| (3)                                    |                                     |                         |                                     |                         |
| -300                                   | -4%                                 | 11.25%                  | -1%                                 | 8.91%                   |
| (3)                                    |                                     |                         |                                     |                         |

- (1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate environment changes.
- (2) Our net portfolio value in a stable interest rate environment and the net portfolio value as projected under the various rate environment changes.
- (3) Sensitivity indicated by a decrease of 200 and 300 basis points may not be particularly meaningful at December 31, 2007 and 2006 given the historically low absolute level of interest rates at these dates.

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

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DISCLOSURES

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
WSFS Financial Corporation:

We have audited the accompanying consolidated statement of condition of WSFS Financial Corporation and subsidiaries (the Company) as of December 31, 2007 and 2006, 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, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company

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Accounting Oversight Board (United States). 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company adopted FASB Statement No. 123(revised), Share-Based Payment, a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, effective January 1, 2006, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, effective January 1, 2007.

/s/ KPMG LLP

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Philadelphia, Pennsylvania  
March 17, 2008

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### CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, 2007

-----  
(Dollars in Thousands, Except Per Share Data)

|   |           |
|---|-----------|
| Interest income:                                |           |
| Interest and fees on loans                      | \$159,512 |
| Interest on mortgage-backed securities          | 24,237    |
| Interest and dividends on investment securities | 1,353     |
| Interest on investments in reverse mortgages    | 2,007     |
| Other interest income                           | 2,368     |
| -----   |           |
|   | 189,477   |
| -----   |           |

|                      |        |
|----------------------|--------|
| Interest expense:    |        |
| Interest on deposits | 57,311 |

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|   |          |
|---|----------|
| Interest on Federal Home Loan Bank advances   | 38,561   |
| Interest on federal funds purchased and securities<br>sold under agreements to repurchase | 3,153    |
| Interest on trust preferred borrowings  | 4,753    |
| Interest on other borrowings  | 3,690    |
|   | -----    |
|   | 107,468  |
|   | -----    |
| Net interest income   | 82,009   |
| Provision for loan losses   | 5,021    |
|   | -----    |
| Net interest income after provision for loan losses                                       | 76,988   |
|   | -----    |
| Noninterest income:   |          |
| Credit/debit card and ATM income  | 19,750   |
| Deposit service charges   | 15,419   |
| Investment advisory income  | 2,465    |
| Loan fee income   | 2,384    |
| Bank-owned life insurance income  | 2,269    |
| Mortgage banking activities, net  | 217      |
| Securities gains (losses)   | 82       |
| Non-recurring gains, net  | 1,979    |
| Other income  | 3,601    |
|   | -----    |
|   | 48,166   |
|   | -----    |
| Noninterest expenses:   |          |
| Salaries, benefits and other compensation   | 43,662   |
| Occupancy expense   | 8,280    |
| Equipment expense   | 5,616    |
| Data processing and operations expense  | 4,062    |
| Marketing expense   | 3,911    |
| Professional fees   | 2,662    |
| Other operating expenses  | 13,838   |
|   | -----    |
|   | 82,031   |
|   | -----    |
| Income before minority interest and taxes   | 43,123   |
| Less minority interest  | -        |
|   | -----    |
| Income before taxes   | 43,123   |
| Income tax provision  | 13,474   |
|   | -----    |
| Net income  | \$29,649 |
|   | -----    |
| Earnings per share:   |          |
| Basic   | \$4.69   |
| Diluted   | \$4.55   |

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

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CONSOLIDATED STATEMENT OF CONDITION

Year Ended December 31,

2007

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(Dollars in Thousands, Except Per Share Data)

Assets

|  |           |
|--|-----------|
| Cash and due from banks                  | \$ 83,936 |
| Cash in non-owned ATMs                   | 182,523   |
| Federal funds sold                       | -         |
| Interest-bearing deposits in other banks | 1,078     |

|  |           |
|--|-----------|
| Total cash and cash equivalents  | 267,537   |
| Investment securities held-to-maturity (fair value: 2007-\$1,498; 2006-\$4,252)                            | 1,516     |
| Investment securities available-for-sale including reverse mortgages                                       | 26,756    |
| Mortgage-backed securities-available-for-sale  | 484,428   |
| Mortgage-backed securities-trading   | 12,364    |
| Loans held-for-sale  | 2,404     |
| Loans, net of allowance for loan losses of \$25,252 at December 31, 2007 and \$27,384 at December 31, 2006 | 2,231,576 |
| Bank-owned life insurance  | 57,551    |
| Stock in Federal Home Loan Bank of Pittsburgh, at cost   | 45,537    |
| Assets acquired through foreclosure  | 703       |
| Premises and equipment   | 34,851    |
| Accrued interest receivable and other assets   | 34,965    |

Total assets \$ 3,200,188

Liabilities and Stockholders' Equity

Liabilities:

Deposits:

|  |            |
|--|------------|
| Noninterest-bearing demand               | \$ 290,424 |
| Interest-bearing demand                  | 171,363    |
| Money market                             | 303,931    |
| Savings                                  | 196,571    |
| Time                                     | 366,717    |
| Jumbo certificates of deposit - customer | 150,191    |

|                                     |           |
|-------------------------------------|-----------|
| Total customer deposits             | 1,479,197 |
| Other jumbo certificates of deposit | 98,758    |
| Brokered deposits                   | 249,206   |

Total deposits 1,827,161

|  |         |
|--|---------|
| Federal funds purchased and securities sold under agreements to repurchase | 75,000  |
| Federal Home Loan Bank advances  | 898,280 |
| Trust preferred borrowings   | 67,011  |
| Other borrowed funds   | 94,869  |
| Accrued interest payable and other liabilities                             | 26,537  |

Total liabilities 2,988,858

Minority Interest -

Stockholders' Equity:

|  |         |
|--|---------|
| Serial preferred stock \$.01 par value, 7,500,000 shares authorized; none issued and outstanding                                       | -       |
| Common stock \$.01 par value, 20,000,000 shares authorized; issued 15,673,865 at December 31, 2007 and 15,584,580 at December 31, 2006 | 157     |
| Capital in excess of par value   | 83,077  |
| Accumulated other comprehensive loss   | (3,861) |
| Retained earnings  | 376,682 |

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|   |              |
|---|--------------|
| Treasury stock at cost, 9,507,069 shares at December 31, 2007 and 8,942,969 shares at December 31, 2006 | (244,725)    |
| -----   |              |
| Total stockholders' equity  | 211,330      |
| -----   |              |
| Total liabilities, minority interest and stockholders' equity   | \$ 3,200,188 |
| -----   |              |

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

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| (In Thousands)   | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Accumulated<br>Other<br>Comprehensive<br>Loss | Retain-<br>Earnings |
|--|-----------------|--------------------------------------|---|---------------------|
| Balance, December 31, 2004   | \$ 152          | \$68,327                             | \$ (3,385)                                    | \$293               |
| Comprehensive income:  |                 |                                      |   |                     |
| Net income   | -               | -                                    | -   | 27                  |
| Other comprehensive loss (1)   | -               | -                                    | (6,583)                                       |                     |
| Total comprehensive income   |                 |                                      |   |                     |
| Cash dividend, \$0.27 per share  | -               | -                                    | -   | (1)                 |
| Issuance of common stock,<br>including proceeds from exercise<br>of common stock options | 2               | 3,120                                | -   |                     |
| Treasury stock at cost, 712,300 shares (2)   | -               | 276                                  | -   |                     |
| Tax benefit from exercises of<br>common stock options                                    | -               | 2,950                                |   |                     |
| -----  |                 |                                      |   |                     |
| Balance, December 31, 2005   | \$ 154          | \$74,673                             | \$ (9,968)                                    | \$319               |
| -----  |                 |                                      |   |                     |
| Comprehensive income:  |                 |                                      |   |                     |
| Net income   | -               | -                                    | -   | 30                  |
| Other comprehensive income (1)   | -               | -                                    | 1,956   |                     |
| Total comprehensive income   |                 |                                      |   |                     |
| Adjustment to initially apply FASB<br>Statement No. 158, net of tax \$(344)              | -               | -                                    | (561)   |                     |
| Cash dividend, \$0.31 per share  | -               | -                                    | -   | (2)                 |
| Issuance of common stock,<br>including proceeds from exercise of<br>common stock options | 2               | 4,610                                | -   |                     |
| Treasury stock at cost, 103,400 shares   | -               | -                                    | -   |                     |
| Issuance of restricted stock   | -               | 286                                  | -   |                     |
| Tax benefit from exercises of<br>common stock options                                    | -               | 2,011                                | -   |                     |
| -----  |                 |                                      |   |                     |
| Balance, December 31, 2006   | \$ 156          | \$81,580                             | \$ (8,573)                                    | \$347               |
| -----  |                 |                                      |   |                     |



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|   |       |          |            |       |
|---|-------|----------|------------|-------|
| Comprehensive income:   |       |          |            |       |
| Net income  | -     | -        | -          | 29    |
| Other comprehensive income (1)  | -     | -        | 4,712      |       |
| Total comprehensive income  |       |          |            |       |
| Cumulative effect of change in accounting principle related to the adoption of FIN 48 |       |          |            |       |
| Cash dividend, \$0.38 per share   | -     | -        | -          | (2,   |
| Issuance of common stock, including proceeds from exercise of common stock options    | 1     | 3,704    | -          |       |
| Treasury stock at cost, 564,100 shares  | -     | -        | -          |       |
| Issuance of restricted stock  | -     | 230      | -          |       |
| Tax liability from exercises of common stock options                                  | -     | (2,437)  | -          |       |
| -----   |       |          |            |       |
| Balance, December 31, 2007  | \$157 | \$83,077 | \$ (3,861) | \$376 |
| -----   |       |          |            |       |

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(1) Other Comprehensive Income:

|   |  |
|---|--|
| Net unrealized holding gains (losses) on securities available-for-sale arising during the period, net of taxes (2007-\$2,855; 2006 - \$261; 2005 - \$(4,540)) |  |
| Actuarial gain reclassified to periodic cost, net of income taxes of \$42   |  |
| Transition obligation reclassified to periodic cost, net of income taxes of \$23  |  |
| Net unrealized holding gains arising during the period on derivatives net of taxes (2007 - \$0; 2006 - \$163; 2005 - \$241)                                   |  |
| Reclassification for losses (gains) included in income, net of taxes (2007-\$ (31); 2006 - \$753; 2005 - \$230)   |  |
| -----   |  |
| Total other comprehensive income (loss)   |  |
| -----   |  |

(2) Net of reissuance of 7,200 shares.

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

|                         |      |
|-------------------------|------|
| Year Ended December 31, | 2007 |
| -----                   |      |
| (In Thousands)          |      |

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Operating activities:

|   |           |    |
|---|-----------|----|
| Net income  | \$ 29,649 | \$ |
| Adjustments to reconcile net income to net cash provided by<br>(used for) operating activities: |           |    |
| Provision for loan losses   | 5,021     |    |
| Depreciation, accretion and amortization  | 4,930     |    |
| Decrease (increase) in accrued interest receivable and other assets                             | 1,142     |    |
| Origination of loans held-for-sale  | (27,160)  |    |
| Proceeds from sales of loans held-for-sale  | 25,362    |    |
| Gain on mortgage banking activity   | (217)     |    |
| Gain on sale of credit card portfolio   | (882)     |    |
| Gain on sale of former headquarters building  | (1,093)   |    |
| (Gain) loss on sale of investments  | (82)      |    |
| Stock-based compensation expense, net of tax benefit recognized                                 | 1,222     |    |
| Excess tax liability (benefit) from share-based payment arrangements                            | 2,437     |    |
| Minority interest in net income   | -         |    |
| (Decrease) increase in accrued interest payable and other liabilities                           | (3,328)   |    |
| (Gain) loss on sale of assets acquired through foreclosure                                      | (20)      |    |
| Increase in value of bank-owned life insurance  | (2,269)   |    |
| Increase in capitalized interest, net   | (2,007)   |    |
| <hr/>   |           |    |
| Net cash provided by operating activities   | 32,705    |    |
| <hr/>   |           |    |

Investing activities:

|  |           |
|--|-----------|
| Maturities of investment securities                                      | 41,893    |
| Sales of investment securities available-for-sale                        | -         |
| Purchases of investment securities available-for-sale                    | (13,986)  |
| Sales of mortgage-backed securities available-for-sale                   | 2,690     |
| Repayments of mortgage-backed securities held-to-maturity                | -         |
| Repayments of mortgage-backed securities available-for-sale              | 77,328    |
| Purchases of mortgage-backed securities available-for-sale               | (52,507)  |
| Repayments on reverse mortgages  | 3,532     |
| Disbursements for reverse mortgages                                      | (2,964)   |
| Purchase of Cypress Capital Management, LLC                              | (240)     |
| Purchase of ATM vault cash business                                      | (440)     |
| Sales of loans   | 909       |
| Purchases of loans   | (2,656)   |
| Payment of bank-owned life insurance                                     | -         |
| Net increase in loans  | (221,179) |
| Net (increase) decrease in stock of Federal Home Loan Bank of Pittsburgh | (5,665)   |
| Sales of assets acquired through foreclosure, net                        | 120       |
| Purchase of land   | -         |
| Sale of real estate held-for-investment                                  | -         |
| Sale of credit card portfolio  | 6,295     |
| Sale of former headquarters building                                     | 2,436     |
| Deferred gain on sale of partnership interest                            | 1,335     |
| Investment in real estate partnership                                    | 1,172     |
| Premises and equipment, net  | (9,181)   |
| <hr/>  |           |
| Net cash used for investing activities                                   | (171,108) |
| <hr/>  |           |

(Continued on next page)

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| Year Ended December 31,  | 2007         | 2006        |
|--|--------------|-------------|
| (In Thousands)   |              |             |
| Financing activities:  |              |             |
| Net increase in demand and saving deposits   | \$ 82,363    | \$ 56,116   |
| Net increase in time deposits  | 4,256        | 294,116     |
| Net increase (decrease) in securities sold<br>under agreement to repurchase        | 1,600        | (9,116)     |
| Receipts of FHLB advances  | 31,427,417   | 8,796,116   |
| Repayments of FHLB advances  | (31,313,165) | (9,021,116) |
| Redemption of Trust Preferred Securities   | -            | -           |
| Issuance of Pooled Floating Rate Capital Securities                                | -            | -           |
| Dividends paid on common stock   | (2,404)      | (2,116)     |
| Issuance of common stock and exercise of common stock options                      | 2,713        | 3,116       |
| Excess tax (liability) benefit from share-based payment arrangements               | (2,437)      | 2,116       |
| Purchase of treasury stock, net of re-issuance                                     | (36,173)     | (6,116)     |
| Decrease in minority interest  | (54)         | -           |
| Net cash provided by financing activities  | 164,116      | 113,116     |
| Increase in cash and cash equivalents from continuing operations                   | 25,713       | 7,116       |
| Net cash provided by operating activities of discontinued operations               | -            | -           |
| Net cash provided by (used for) investing activities of<br>discontinued operations | -            | -           |
| Cash and cash equivalents at beginning of period                                   | 241,824      | 233,116     |
| Cash and cash equivalents at end of period   | \$ 267,537   | \$ 241,116  |

Supplemental Disclosure of Cash Flow Information:

|  |            |           |
|--|------------|-----------|
| Cash paid in interest during the year                    | \$ 105,969 | \$ 98,116 |
| Cash paid for income taxes, net                          | 18,056     | 13,116    |
| Cash refunded for taxes of discontinued operations, net  | -          | -         |
| Loans transferred to assets acquired through foreclosure | 415        | -         |
| Net change in other comprehensive income                 | 4,712      | 1,116     |
| Transfer of loans held for sale to loans                 | 333        | 2,116     |
| Transfer of building to real estate held-for-investment  | -          | -         |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

WSFS Financial Corporation ("the Company," "our Company," "we," "our" or "us") is a thrift holding company organized under the laws of the State of Delaware. Our principal wholly-owned subsidiary, Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank"), is a federal savings bank organized under the laws of the United States which, at December 31, 2007, serves customers from its main office, 29 retail banking offices, loan production offices and operations centers located in Delaware, southeastern Pennsylvania and Virginia.

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In preparing the Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The material estimates that are particularly susceptible to significant changes in the near term relate to the allowance for loan losses for impaired loans and the remainder of the loan portfolios, investment in reverse mortgages, contingencies (including indemnifications) and income taxes.

### Basis of Presentation

The Consolidated Financial Statements include the accounts of the parent company, Montchanin Capital Management, Inc. (Montchanin) and its wholly-owned subsidiary, Cypress Capital Management, LLC (Cypress), WSFS Bank and its wholly-owned subsidiary, WSFS Investment Group, Inc. WSFS Investment Group, Inc. markets various third-party insurance and securities products to Bank customers through WSFS' retail banking system. Montchanin was formed to provide asset management products and services. In January 2005, 2006 and 2007, Montchanin increased its ownership in Cypress, a Wilmington-based investment advisory firm servicing high net-worth individuals and institutions, to 80%, 90% and 100%, respectively.

WSFS Capital Trust III ("the Trust") is an unconsolidated affiliate of ours, and was formed in 2005 to issue \$67.0 million aggregate principle amount of Pooled Floating Rate Capital Securities. The proceeds from this issue were used to fund the redemption of \$51.5 million of Floating Rate WSFS Capital Trust I Preferred Securities (formerly WSFS Capital Trust I). The Trust invested all of the proceeds from the sale of the Pooled Floating Rate Capital Securities in Junior Subordinated Debentures of the Corporation.

Certain reclassifications have been made to the prior years' Financial Statements to conform them to the current year's presentation. All significant intercompany transactions are eliminated in consolidation.

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, cash in non-owned ATMs, cash due from banks, federal funds sold and securities purchased under agreements to resell. Generally, federal funds are purchased and sold for periods ranging up to 90 days.

### Debt and Equity Securities

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

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- o Debt securities with the positive intention 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.

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Debt and equity securities include mortgage-backed securities, municipal bonds, U.S. Government and agency securities 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 method over the period to expected maturity. The fair value of debt and equity securities is primarily obtained from third-party pricing services. Implicit in the valuation are estimated prepayments based on historical and current market conditions.

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. Management is required to use its judgement to determine impairment in certain circumstances. The specific identification method is used to determine realized gains and losses on sales of investment and mortgage-backed securities. All sales are made without recourse.

### Investment in Reverse Mortgages

We account for our investment in reverse mortgages in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) 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, we 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 value 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; the effective yield of each pool is recomputed, and income is adjusted retroactively and prospectively to reflect the revised rate of return. Because of this quasi-market-value based accounting, the recorded value of reverse mortgage assets can result in significant volatility associated with estimations. As a result, income recognition can vary significantly from reporting period to reporting period.

### Loans

Loans are stated net of deferred fees and costs and unearned discounts. Loan interest income is accrued using various methods that 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.

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are 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 include loans within our commercial, commercial mortgage, commercial construction, residential mortgages and consumer portfolios. Our policy for recognition of interest income on impaired loans is the same as for nonaccrual loans discussed below.

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### Nonaccrual Loans

Nonaccrual loans are those on which the accrual of interest has ceased.

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Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is contractually 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 or the underlying collateral is deemed sufficient to cover principal and interest in accordance with our previously established loan-to-value policies.

### Allowances for Loan Losses

We maintain allowances for credit losses and charge losses to these allowances when such losses are realized. The determination of the allowance for loan losses requires significant judgement reflecting management's best estimate of probable losses related to specifically identified loans as well as probable losses in the remaining loan portfolio. Management's evaluation is based upon a review of these portfolios.

Management establishes the loan loss allowance in accordance with guidance provided by the Securities and Exchange Commission's Staff Accounting Bulletin 102 (SAB 102). Its methodology for assessing the appropriateness of the allowance consists of several key elements which include: specific allowances for identified problem loans, formula allowances for commercial and commercial real estate loans, and allowances for pooled homogenous loans.

Specific reserves are established for certain loans in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss has been incurred.

The formula allowances for commercial and commercial real estate loans are calculated by applying estimated loss factors to outstanding loans based on the internal risk grade of loans. For low risk commercial and commercial real estate loans the portfolio is pooled, based on internal risk grade, and estimates are based on a ten-year net charge-off history. Higher risk and criticized loans have loss factors that are derived from an analysis of both the probability of default and the probability of loss should default occur. Loss adjustment factors are applied based on criteria discussed below. As a result, changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance.

Pooled loans are loans that are usually smaller, not-individually-graded and homogeneous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are based on a ten-year net charge-off history. The average loss allowance per homogeneous pool is based on the product's average annual historical loss rate and the average estimated duration of the pool multiplied by the pool balances. These separate risk pools are assigned a reserve for loss based upon this historical loss information and loss adjustment factors.

Historical loss adjustment factors are based upon management's evaluation of various current conditions, including those listed below:

- o General economic and business conditions affecting WSFS' key lending areas,

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- o Credit quality trends,
- o Recent loss experience in particular segments of the portfolio,
- o Collateral values and loan-to-value ratios,

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- o Loan volumes and concentrations, including changes in mix,
- o Seasoning of the loan portfolio,
- o Specific industry conditions within portfolio segments,
- o Bank regulatory examination results, and
- o Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions, and also risks associated with individual problem loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for such losses. We also give consideration to the results of these regulatory agency examinations.

During 2007, the provision for loan losses was affected by changes in estimates used in the calculation. These changes resulted in a lower level of estimated losses resulting from an improvement in the methodology for estimating loan losses using historical data adjusted for current conditions and trends. Management believes this analysis better estimates losses currently in our loan portfolio. These changes resulted in a reduction to the provision for loan losses of \$6.8 million or \$0.68 per share.

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.

### Assets Held-for-Sale

Assets held-for-sale include loans held-for-sale and are carried at the lower of cost or market of the aggregate or, in some cases, individual assets.

### Assets Acquired Through Foreclosure

Assets acquired through foreclosure are recorded at the lower of the recorded investment in the loans 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 include costs of holding and operating the assets, net gains or losses on sales of the assets and provisions for losses to reduce such assets to 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 a straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, over the effective life of the related lease if less than the estimated useful life. In general, computer equipment, furniture and equipment and building renovations are depreciated over three, five and ten years, respectively.

### Federal Funds Purchased and Securities Sold Under Agreements to

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Repurchase

We enter 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 are assets.

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Loss Contingency for Standby Letters of Credit

We maintain a loss contingency for standby letters of credit and charge losses to this reserve when such losses are realized. The determination of the loss contingency for standby letters of credit requires significant judgement reflecting management's best estimate of probable losses related to standby letters of credit.

Income Taxes

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

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. FIN 48 became effective for us on January 1, 2007, and resulted in a \$2.0 million increase to our retained earnings on that date.

Earnings Per Share

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

|                 |                |
|-----------------|----------------|
|                 | 2007           |
|                 | ----           |
|                 | (In Thousands, |
| Numerator:      |                |
| Net income..... | \$ 29,649      |
|                 | =====          |
| Denominator:    |                |



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|   |         |  |
|---|---------|--|
| Denominator for basic earnings per share - weighted average shares .....                                | 6,316   |  |
| Effect of dilutive employee stock options.....  | 194     |  |
| Denominator for diluted earnings per share -.adjusted weighted average shares and assumed exercise..... | 6,510   |  |
| Earnings per share:   |         |  |
| Basic:  |         |  |
| Net income.....   | \$ 4.69 |  |
| Diluted:  |         |  |
| Net income.....   | \$ 4.55 |  |
| Outstanding common stock equivalents having no dilutive effect.....                                     | 194     |  |

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### Stock-Based Compensation

Stock-based compensation is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R). We adopted SFAS 123R beginning January 1, 2006 using the Modified Prospective Application Method. The impact of stock-based compensation for 2007 was \$1.2 million, or \$0.16 per share, to salaries, benefits and other compensation, compared to \$1.5 million, or \$0.19 per share in 2006.

For comparative purposes, the following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provision of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

|  |  |
|--|--|
| Income from continuing operations, as reported.....  |  |
| Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects.... |  |
| Pro forma income from continuing operations.....   |  |

#### Earnings per share:

##### Basic:

|  |  |
|--|--|
| Income from continuing operations.....   |  |
| Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects.. |  |
| Pro forma income from continuing operations.....   |  |

##### Diluted:

|  |  |
|--|--|
| Income from continuing operations.....   |  |
| Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects.. |  |

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Pro forma income from continuing operations.....

### 2. INVESTMENT SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's investment securities:

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fa<br>Va |
|-------------------------------------|-------------------|------------------------------|-------------------------------|----------|
|                                     | -----             | -----                        | -----                         | ---      |
| (In Thousands)                      |                   |                              |                               |          |
| Available-for-sale securities:      |                   |                              |                               |          |
| December 31, 2007:                  |                   |                              |                               |          |
| Reverse mortgages (1).....          | \$ 2,037          | \$ -                         | \$ -                          | \$ 2     |
| U.S. Government and agencies.....   | 20,477            | 99                           | -                             | 20       |
| State and political subdivisions... | 4,115             | 28                           | -                             | 4        |
|                                     | -----             | -----                        | -----                         | ---      |
|                                     | \$26,629          | \$ 127                       | \$ -                          | \$26     |
|                                     | =====             | =====                        | =====                         | =====    |

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|                                     |          |       |       |       |
|-------------------------------------|----------|-------|-------|-------|
| December 31, 2006:                  |          |       |       |       |
| Reverse mortgages (1).....          | \$ 598   | \$ -  | \$ -  | \$    |
| U.S. Government and agencies.....   | 46,920   | 21    | 74    | 46    |
| State and political subdivisions... | 2,785    | 23    | 1     | 2     |
|                                     | -----    | ----- | ----- | ---   |
|                                     | \$50,303 | \$ 44 | \$ 75 | \$50  |
|                                     | =====    | ===== | ===== | ===== |
| Held-to-maturity:                   |          |       |       |       |
| December 31, 2007:                  |          |       |       |       |
| State and political subdivisions... | \$ 1,516 | \$ 24 | \$ 42 | \$ 1  |
|                                     | -----    | ----- | ----- | ---   |
|                                     | \$ 1,516 | \$ 24 | \$ 42 | \$ 1  |
|                                     | =====    | ===== | ===== | ===== |
| December 31, 2006:                  |          |       |       |       |
| State and political subdivisions... | \$ 4,219 | \$ 75 | \$ 42 | \$ 4  |
|                                     | -----    | ----- | ----- | ---   |
|                                     | \$ 4,219 | \$ 75 | \$ 42 | \$ 4  |
|                                     | =====    | ===== | ===== | ===== |

(1) See Note 4 of the Consolidated Financial Statements for a further

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discussion of Reverse Mortgages.

Securities with book values aggregating \$21.0 million at December 31, 2007 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank, securities sold under agreement to repurchase and certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was \$341,000 and \$560,000 at December 31, 2007 and 2006, respectively.

The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at December 31, 2007 were as follows:

|  | Held-to-Maturity  |               | Available-for-Sa  |
|--|-------------------|---------------|-------------------|
|  | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost |
|  | (In Thousands)    |               |                   |
| Within one year (1).....                 | \$ -              | \$ -          | \$16,015          |
| After one year but within five years.... | 875               | 899           | 8,514             |
| After five years but within ten years... | -                 | -             | 2,100             |
| After ten years.....                     | 641               | 599           | -                 |
|  | \$ 1,516          | \$ 1,498      | \$26,629          |
|  | =====             | =====         | =====             |

(1) Reverse mortgages do not have contractual maturities. We have included reverse mortgages in maturities within one year.

During 2007, there were no sales of investment securities classified as available-for-sale. Municipal bonds totaling \$1.1 million were called by the issuers. Proceeds from the sale of investments classified as available-for-sale during 2006 and 2005 were \$11.0 million and \$60.7 million, respectively. There was a net loss of \$41,000 and \$609,000 realized on sales in 2006 and 2005, respectively. The cost basis for all investment security sales was based on the specific identification method. There were no sales of investment securities classified as held-to-maturity in 2007, 2006 and 2005.

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At December 31, 2007, we owned investment securities totaling \$683,000 where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$42,000 at December 31, 2007. This temporary impairment is the result of changes in market interest rates since the purchase of the securities. Securities amounting to \$433,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. The following table includes unrealized losses aggregated by category:

| Less than 12 months |            | 12 months or longer |            |
|---------------------|------------|---------------------|------------|
| Fair                | Unrealized | Fair                | Unrealized |
|                     |            |                     |            |

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|  | Value          | Loss  | Value | Loss  |
|--|----------------|-------|-------|-------|
|  | -----          | ----- | ----- | ----- |
|  | (In Thousands) |       |       |       |
| Held-to-maturity                           |                |       |       |       |
| State and political subdivisions .....     | \$ -           | \$ -  | \$433 | \$ 42 |
| Available-for-sale                         |                |       |       |       |
| State and political subdivisions .....     | 250            | -     | -     | -     |
|  | -----          | ----- | ----- | ----- |
| Total temporarily impaired investments.... | \$250          | \$ -  | \$433 | \$ 42 |
|  | =====          | ===== | ===== | ===== |

3. MORTGAGE-BACKED SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's mortgage-backed securities:

|   | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|----------------|------------------------|-------------------------|------------|
|   | -----          | -----                  | -----                   | -----      |
|   | (In Thousands) |                        |                         |            |
| Available-for-sale securities:          |                |                        |                         |            |
| December 31, 2007:                      |                |                        |                         |            |
| Collateralized mortgage obligations ... | \$407,113      | \$ 856                 | \$ 4,440                | \$403,527  |
| FNMA .....                              | 35,654         | -                      | 1,009                   | 34,645     |
| FHLMC .....                             | 31,357         | 34                     | 937                     | 30,454     |
| GNMA .....                              | 15,923         | -                      | 123                     | 15,800     |
|   | -----          | -----                  | -----                   | -----      |
|   | \$490,047      | \$ 890                 | \$ 6,509                | \$484,427  |
|   | =====          | =====                  | =====                   | =====      |
| Weighted average yield .....            | 4.85%          |                        |                         |            |
| December 31, 2006:                      |                |                        |                         |            |
| Collateralized mortgage obligations.... | \$424,748      | \$ 119                 | \$ 9,023                | \$415,844  |
| FNMA .....                              | 42,254         | -                      | 2,036                   | 40,218     |
| FHLMC .....                             | 31,121         | 97                     | 1,632                   | 29,586     |
| GNMA .....                              | 19,115         | -                      | 416                     | 18,699     |
|   | -----          | -----                  | -----                   | -----      |
|   | \$517,238      | \$ 216                 | \$ 13,107               | \$504,347  |
|   | =====          | =====                  | =====                   | =====      |
| Weighted average yield.....             | 4.77%          |                        |                         |            |

Trading securities:

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December 31, 2007:

|   |           |           |       |  |
|---|-----------|-----------|-------|--|
| Collateralized mortgage obligations.... | \$ 12,364 | \$ -      | \$ -  |  |
|   | -----     | -----     | ----- |  |
|   | \$ 12,364 | \$ -      | \$ -  |  |
|   | =====     | =====     | ===== |  |
| <br>Weighted average yield.....         |           | <br>7.79% |       |  |

December 31, 2006:

|   |           |           |       |  |
|---|-----------|-----------|-------|--|
| Collateralized mortgage obligations.... | \$ 12,364 | \$ -      | \$ -  |  |
|   | -----     | -----     | ----- |  |
|   | \$ 12,364 | \$ -      | \$ -  |  |
|   | =====     | =====     | ===== |  |
| <br>Weighted average yield.....         |           | <br>8.35% |       |  |

The portfolio of available-for-sale mortgage-backed securities consists entirely of AAA-rated, currently cash flowing securities, backed by conventional 10 to 30-year mortgages. The weighted average duration of the mortgage-backed securities was 2.8 years at December 31, 2007.

At December 31, 2007, mortgage-backed securities with par values aggregating \$464.9 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. Accrued interest receivable relating to mortgage-backed securities was \$2.0 million at both December 31, 2007 and 2006. From time to time, mortgage-backed securities are pledged as collateral for Federal Home Loan Bank (FHLB) borrowings. The fair value of these pledged mortgage-backed securities at December 31, 2007 and 2006 was \$218.8 million and \$0, respectively. Proceeds from the sale of mortgage-backed securities available-for-sale were \$2.7 million in 2007, resulting in a gain of \$82,000. In 2006, proceeds from the sale of mortgage-backed securities available-for-sale were \$49.6 million, resulting in a loss of \$1.9 million. The cost basis of all mortgage-backed sales is based on the specific identification method.

We own \$12.4 million of SASCO RM-1 2002 securities, including accrued interest, which was paid in kind, which are classified as trading. \$10.0 million was received as partial consideration for the sale of a previously owned reverse mortgage portfolio, while an additional \$1.0 million was purchased at par at the time of the securitization of these assets by a third party and \$1.4 million from accrued interest paid in kind. These floating rate notes represent the BBB+ tranche of a reverse mortgage securitization underwritten by Lehman Brothers and carry a coupon rate of one-month London InterBank Offered Rate (LIBOR) plus 300 basis points. For a further discussion of reverse mortgages, see the Reverse Mortgages discussion in Management's Discussion and Analysis and Note 4 to the Consolidated Financial Statements.

Based on SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), when these securities were acquired they were classified as trading. It was our intention to sell them in the near term. An active market for these securities has not developed since the issuance, but it continues to be our intent to sell these securities if and when an active market develops. Since there is no active market for these securities, we have used the guidance under SFAS 115 to provide a reasonable estimate of fair value. We estimated the value of these securities as of December 31, 2007 based on the pricing of BBB+ securities that have an active market as well as a fundamental analysis of the actual cash flows of the underlying securities. We also obtained an estimate, from an independent securities dealer, of the value of these securities.

At December 31, 2007, we owned mortgage-backed securities totaling

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\$374.5 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$6.5 million at December 31, 2007. This temporary impairment is the result of changes in market interest rates since the purchase of the securities. Most of these securities have been impaired for twelve months or longer. We have determined that these securities are not "other than temporarily" impaired. The following table lists the unrealized losses aggregated by category:

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|                                     | Less than 12 months |                 | 12 months or longer |                 |
|-------------------------------------|---------------------|-----------------|---------------------|-----------------|
|                                     | Fair Value          | Unrealized Loss | Fair Value          | Unrealized Loss |
|                                     |                     |                 |                     |                 |
|                                     |                     |                 |                     | (In Thousands)  |
| Available-for-sale                  |                     |                 |                     |                 |
| CMO.....                            | \$46,322            | \$ 479          | \$254,213           | \$3,962         |
| FNMA.....                           | -                   | -               | 34,645              | 1,009           |
| FHLMC.....                          | -                   | -               | 23,522              | 937             |
| GNMA.....                           | -                   | -               | 15,800              | 123             |
|                                     | -----               | -----           | -----               | -----           |
| Total temporarily impaired MBS..... | \$46,322            | \$ 479          | \$328,180           | \$6,031         |
|                                     | =====               | =====           | =====               | =====           |

4. REVERSE MORTGAGES AND RELATED ASSETS

We hold an investment in reverse mortgages of \$2.0 million at December 31, 2007 representing a participation in reverse mortgages with a third party.

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. Reverse mortgages are nonrecourse obligations, which means that the loan repayments are generally limited to the net sale proceeds of the borrower's residence.

We account for our investment in reverse mortgages by estimating the value of the future cash flows on the reverse mortgages at a rate deemed appropriate for these mortgages, based on the market rate for similar collateral. Actual cash flows from these mortgage loans can result in significant volatility in the recorded value of reverse mortgage assets. As a result, income varies significantly from reporting period to reporting period. For the year ended December 31, 2007, the Company earned \$2.0 million in interest income on reverse mortgages as compared to \$684,000 in 2006 and \$678,000 in 2005.

The projected cash flows depend on assumptions about life expectancy of the mortgagee and the future changes in collateral values. Projecting the changes in collateral values is the most significant factor impacting the volatility of reverse mortgage values. The current assumptions include a short-term annual depreciation rate of -8.0% in the first year, and a long-term annual appreciation rate of 0.5% in future years. If the long-term appreciation rate was increased to 1.5%, the resulting impact on income would have been

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\$106,000. Conversely, if the long-term appreciation rate was decreased to -0.5%, the resulting impact on income would have been \$(89,000).

We also hold \$12.4 million in BBB+ rated mortgage-backed securities classified as trading and options to acquire up to 49.9% of Class "O" Certificates issued in connection with securities consisting of a portfolio of reverse mortgages we previously held. At the time of the securitization, the securitizer retained 100% of the Class "O" Certificates from the securitization. These Class "O" Certificates have no priority over other classes of Certificates under the Trust and no distributions will be made on the Class "O" Certificates until, among other conditions, the principal amount of each other class of notes has been reduced to zero. The underlying assets, the reverse mortgages, are long-term assets. Hence, any cash flow that might inure to the holder of the Class "O" Certificates is not expected to occur until 2014. Additionally, the Company can exercise its option on 49.9% of the Class "O" Certificates in up to five separate increments for an aggregate purchase price of \$1.0 million any time between January 1, 2004 and the termination of the Securitization Trust. The option to purchase the Class "O" Certificates does not meet the definition of a derivative under SFAS No. 133, Accounting for Derivative and Hedging Activities. This certificate is an equity security with no readily determinable fair value, as such, it is

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excluded from the accounting treatment promulgated under SFAS 115. As a result, the option is carried at cost (which is zero). The amount by which the option is considered in the money, is included in Note 15 to the Consolidated Financial Statements, as required by SFAS 107, Disclosures about Fair Value of Financial Instruments.

### 5. LOANS

The following table details our loan portfolio:

| December 31,                               | 2007        | 2006        |
|--|-------------|-------------|
| -----                                      |             |             |
| (In Thousands) Real estate mortgage loans: |             |             |
| Residential (1-4 family)                   | \$ 447,435  | 473,946     |
| Other                                      | 489,658     | 446,810     |
| Real estate construction loans             | 300,130     | 260,733     |
| Commercial loans                           | 791,473     | 649,832     |
| Consumer loans                             | 278,272     | 263,478     |
|  | -----       | -----       |
|  | 2,306,968   | 2,094,799   |
| -----                                      |             |             |
| Less:                                      |             |             |
| Loans in process                           | 50,855      | 49,437      |
| Deferred costs, net                        | (715)       | (844)       |
| Allowance for loan losses                  | 25,252      | 27,384      |
|  | -----       | -----       |
| Net loans                                  | \$2,231,576 | \$2,018,822 |
| -----                                      |             |             |

We had impaired loans of approximately \$31.8 million at December 31, 2007 compared to \$3.8 million and \$3.4 million at December 31, 2006 and 2005, respectively. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The average recorded

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balance of impaired loans was \$10.0 million, \$3.6 million and \$3.9 million during 2007, 2006 and 2005, respectively. The allowance for losses on impaired loans was \$738,000, \$369,000 and \$480,000 at December 31, 2007, 2006 and 2005, respectively. There was no interest income recognized on impaired loans.

The total amount of loans serviced for others were \$255.0 million, \$265.5 million and \$255.8 million at December 31, 2007, 2006 and 2005, respectively. We received fees from the servicing of loans of \$718,000, \$724,000 and \$769,000 during 2007, 2006 and 2005, respectively.

We record mortgage-servicing rights on our mortgage loan-servicing portfolio. Mortgage servicing rights represent the present value of the future net servicing fees from servicing mortgage loans acquired or originated by us. The total of this portfolio was \$81.9 million and \$64.9 million for December 31, 2007 and 2006, respectively. Mortgage loans serviced for others are not included in loans on the accompanying Consolidated Statement of Condition. The valuation of these servicing rights resulted in \$144,000 and \$135,000 of noninterest income during 2007 and 2006, respectively. Revenues from originating, marketing and servicing mortgage loans as well as valuation adjustments related to capitalized mortgage servicing rights are included in mortgage banking activities, net on the Consolidated Statement of Operations.

Accrued interest receivable on loans outstanding was \$10.4 million and \$10.3 million at December 31, 2007 and 2006, respectively.

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Nonaccruing loans aggregated \$31.8 million, \$3.8 million and \$3.4 million at December 31, 2007, 2006 and 2005, respectively. If interest on all such loans had been recorded in accordance with contractual terms, net interest income would have increased by \$790,000 in 2007, \$159,000 in 2006 and \$133,000 in 2005.

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

| Year Ended December 31,   | 2007     | 2006     | 2005     |
|---------------------------|----------|----------|----------|
| -----                     |          |          |          |
| (In Thousands)            |          |          |          |
| Beginning balance         | \$27,384 | \$25,381 | \$24,222 |
| Provision for loan losses | 5,021    | 2,738    | 2,582    |
| Loans charged-off (1)     | (8,049)  | (1,418)  | (1,873)  |
| Recoveries (2)            | 896      | 683      | 450      |
| -----                     |          |          |          |
| Ending balance            | \$25,252 | \$27,384 | \$25,381 |
| -----                     |          |          |          |

- (1) 2007 and 2006 include \$1.4 million and \$607,000 of overdraft charge-offs, respectively. Prior to 2006, these amounts were recognized in other operating expenses.
- (2) 2007 and 2006 include \$446,000 and \$217,000 of overdraft recoveries, respectively. Prior to 2006, these amounts were recognized in other operating expenses.

### 6. ASSETS ACQUIRED THROUGH FORECLOSURE

Assets acquired through foreclosure are summarized as follows:

December 31, 2007 2006



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|                           |        |       |
|---------------------------|--------|-------|
| (In Thousands)            |        |       |
| Real estate               | \$ 703 | \$388 |
| Less allowance for losses | -      | -     |
|                           | \$ 703 | \$388 |

7. PREMISES AND EQUIPMENT

Land, office buildings, leasehold improvements and furniture and equipment, at cost, are summarized by major classifications:

| December 31,             | 2007     | 2006     |
|--------------------------|----------|----------|
| (In Thousands)           |          |          |
| Land                     | \$4,415  | \$ 4,440 |
| Buildings                | 10,713   | 12,125   |
| Leasehold improvements   | 20,967   | 18,746   |
| Furniture and equipment  | 27,817   | 25,349   |
|                          | 63,912   | 60,660   |
| Less:                    |          |          |
| Accumulated depreciation | 29,061   | 30,442   |
|                          | \$34,851 | \$30,218 |

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We occupy certain premises and operate certain equipment under noncancelable leases with terms ranging from 1 to 25 years. These leases are accounted for as operating leases. Accordingly, lease costs are expensed as incurred. Rent expense was \$4.5 million in 2007, \$2.4 million in 2006 and \$2.2 million in 2005. Future minimum payments under these leases at December 31, 2007 are as follows:

|                                     |          |
|-------------------------------------|----------|
| (In Thousands)                      |          |
| 2008                                | \$ 4,562 |
| 2009                                | 4,371    |
| 2010                                | 4,056    |
| 2011                                | 3,947    |
| 2012                                | 3,470    |
| Thereafter                          | 23,731   |
| Total future minimum lease payments | \$44,137 |

8. DEPOSITS

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

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| December 31,  | 2007       | 2006       |
|---|------------|------------|
| -----   |            |            |
| (In Thousands) Money market and demand:               |            |            |
| Noninterest-bearing demand                            | \$ 290,424 | \$ 276,338 |
| Interest-bearing demand                               | 171,363    | 146,719    |
| Money market  | 303,931    | 246,645    |
| -----   |            |            |
| Total money market and demand                         | 765,718    | 669,702    |
| Savings   | 196,571    | 226,853    |
| -----   |            |            |
| Customer certificates of deposit by maturity:         |            |            |
| Less than one year                                    | 320,474    | 251,214    |
| One year to two years                                 | 40,191     | 54,080     |
| Two years to three years                              | 3,234      | 17,217     |
| Three years to four years                             | 1,022      | 1,567      |
| Over four years                                       | 1,796      | 1,931      |
| -----   |            |            |
| Total customer time certificates                      | 366,717    | 326,009    |
| Jumbo certificates of deposit--customer, by maturity: |            |            |
| Less than one year                                    | 140,353    | 98,636     |
| One year to two years                                 | 9,569      | 16,087     |
| Two years to three years                              | 102        | 6,103      |
| Three years to four years                             | -          | -          |
| Over four years                                       | 167        | 316        |
| -----   |            |            |
| Total jumbo certificates of deposit--customer         | 150,191    | 121,142    |
| -----   |            |            |
| Subtotal retail deposits                              | 1,479,197  | 1,343,706  |
| -----   |            |            |

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|   |             |             |
|---|-------------|-------------|
| Other jumbo certificates of deposit--by maturity: |             |             |
| Less than one year                                | 98,582      | 110,964     |
| One year to two years                             | 176         | 152         |
| Two years to three years                          | -           | 272         |
| Three years to four years                         | -           | -           |
| Over four years                                   | -           | -           |
| -----   |             |             |
| Total other jumbo time certificates               | 98,758      | 111,388     |
| -----   |             |             |
| Brokered deposits less than one year              | 249,206     | 301,254     |
| -----   |             |             |
| Total deposits                                    | \$1,827,161 | \$1,756,348 |
| -----   |             |             |

Interest expense by category follows:

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| Year Ended December 31,                   | 2007            | 2006            | 2005            |
|---|-----------------|-----------------|-----------------|
| (In Thousands)                            |                 |                 |                 |
| Interest-bearing demand                   | \$ 1,393        | \$ 785          | \$ 297          |
| Money market                              | 11,870          | 8,090           | 3,837           |
| Savings                                   | 1,679           | 2,237           | 1,738           |
| Customer time deposits                    | 22,357          | 15,309          | 8,098           |
| <b>Total customer interest expense</b>    | <b>37,299</b>   | <b>26,421</b>   | <b>13,970</b>   |
| Other jumbo certificates of deposit       | 5,176           | 4,100           | 1,374           |
| Brokered deposits                         | 14,836          | 12,186          | 6,346           |
| <b>Total interest expense on deposits</b> | <b>\$57,311</b> | <b>\$42,707</b> | <b>\$21,690</b> |

9. BORROWED FUNDS

The following is a summary of borrowed funds by type:

|   | Balance at<br>End of<br>Period | Weighted<br>Average<br>Interest<br>Rate | Maximum<br>Outstanding<br>at Month<br>End<br>During the<br>Period | Amount<br>Avera<br>Amount<br>Outsta<br>During<br>Peri |
|---|--------------------------------|---|---|---|
| (Dollars in Thousands)  |                                |   |   |   |
| 2007  |                                |   |   |   |
| ----  |                                |   |   |   |
| FHLB advances.....  | \$898,280                      | 4.23%                                   | \$ 936,302  | \$765,9   |
| Trust preferred borrowings.....   | 67,011                         | 6.89                                    | 67,011  | 67,0  |
| Federal funds purchased and securities<br>sold under agreements to repurchase ..... | 75,000                         | 4.46                                    | 75,000  | 60,6  |
| Other borrowed funds .....  | 94,869                         | 3.84                                    | 95,087  | 86,6  |

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|   |           |       |             |         |
|---|-----------|-------|-------------|---------|
| 2006  |           |       |             |         |
| ----  |           |       |             |         |
| FHLB advances.....  | \$784,028 | 4.93% | \$1,051,458 | \$976,1 |
| Trust preferred borrowings.....   | 67,011    | 7.14  | 67,011      | 67,0    |
| Federal funds purchased and securities<br>sold under agreements to repurchase ..... | 73,400    | 5.36  | 83,150      | 74,4    |
| Other borrowed funds .....  | 78,240    | 4.30  | 78,240      | 49,3    |

Federal Home Loan Bank Advances

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Advances from the FHLB of Pittsburgh with rates ranging from 3.48% to 5.45% at December 31, 2007 are due as follows:

|                  | Amount                 | Weighted<br>Average<br>Rate |
|------------------|------------------------|-----------------------------|
|                  | -----                  | ----                        |
|                  | (Dollars in Thousands) |                             |
| 2008.....        | \$577,900              | 4.03%                       |
| 2009.....        | 162,562                | 4.67                        |
| 2010.....        | 115,517                | 4.63                        |
| 2012 - 2013..... | 42,301                 | 4.27                        |
|                  | -----                  |                             |
|                  | \$898,280              |                             |
|                  | =====                  |                             |

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

As a member of the FHLB of Pittsburgh, we are required to acquire and hold shares of capital stock in the FHLB of Pittsburgh in an amount at least equal to 4.65% of its advances (borrowings) from the FHLB of Pittsburgh, plus 0.65% of the unused borrowing capacity. We were in compliance with this requirement with a stock investment in FHLB of Pittsburgh of \$45.5 million at December 31, 2007. This stock is carried on the accompanying consolidated statement of condition at cost, which approximates liquidation value.

Seven advances are outstanding at December 31, 2007 totaling \$170.0 million, with a weighted average rate of 4.47% maturing in 2009 and beyond. They are convertible on a quarterly basis (at the discretion of the FHLB) to a variable rate advance based upon the three-month LIBOR rate, after an initial fixed term. If any of these advances convert, WSFS has the option to prepay these advances at predetermined times or rates.

### Trust Preferred Borrowings

On April 6, 2005, we completed the issuance of \$67.0 million of aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. The proceeds from this issuance were used to fund the redemption of \$51.5 million of Floating Rate Capital Trust I Preferred Securities.

### Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

During 2007, we purchased federal funds as a short-term funding source. At December 31, 2007, we had purchased \$50.0 million in federal funds at a rate of 4.25%. At December 31, 2006, we also had \$50.0 million federal funds purchased.

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During 2007, we sold securities under agreements to repurchase as a funding source. At December 31, 2007, securities sold under agreements to repurchase had a fixed rate of 4.87%. The underlying securities are mortgage-backed securities with a book value of \$29.1 million at December 31, 2007. Securities sold under agreements to repurchase with the corresponding carrying and market values of

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the underlying securities are due as follows:

|                        | Borrowing<br>Amount | Rate  | Collateral        |                 |                     |
|------------------------|---------------------|-------|-------------------|-----------------|---------------------|
|                        |                     |       | Carrying<br>Value | Market<br>Value | Accrued<br>Interest |
| (Dollars in Thousands) |                     |       |                   |                 |                     |
| 2007                   |                     |       |                   |                 |                     |
| Over 90 days.....      | \$ 25,000           | 4.87% | \$ 29,086         | \$ 28,155       | \$ 99               |
| 2006                   |                     |       |                   |                 |                     |
| Up to 30 days.....     | \$ 23,400           | 5.32% | \$ 24,993         | \$ 24,969       | \$ 215              |

Other Borrowed Funds

Included in other borrowed funds are collateralized borrowings of \$94.9 million and \$78.2 million at December 31, 2007 and 2006, respectively, consisting of outstanding retail repurchase agreements, contractual arrangements under which portions of certain securities are sold overnight to retail customers under agreements to repurchase. Such borrowings were collateralized by mortgage-backed securities. The average rates on these borrowings were 3.84% and 4.30% at December 31, 2007 and 2006, respectively.

10. STOCKHOLDERS' EQUITY

Under Office of Thrift Supervision (OTS) capital regulations, savings institutions such as WSFS, must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4.0% of adjusted total assets, "Tier 1" capital equal to 4.0% of risk-weighted assets and "total" or "risk-based" capital (a combination of core and "supplementary" capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on WSFS' Financial Statements. At December 31, 2007 and 2006, WSFS was in compliance with regulatory capital requirements and was deemed a "well-capitalized" institution.

The following table presents WSFS' consolidated capital position as of December 31, 2007 and 2006:

|                | Consolidated<br>Bank Capital |         | For Capital<br>Adequacy Purp |     |
|----------------|------------------------------|---------|------------------------------|-----|
|                | Amount                       | Percent | Amount                       | Per |
| (In Thousands) |                              |         |                              |     |

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As of December 31, 2007:

|  |           |        |           |
|--|-----------|--------|-----------|
| Total Capital (to risk-weighted assets)    | \$304,992 | 12.31% | \$198,156 |
| Core Capital (to adjusted tangible assets) | 276,327   | 8.63   | 128,033   |
| Tangible Capital (to tangible assets)      | 276,327   | 8.63   | 48,012    |
| Tier 1 Capital (to risk-weighted assets)   | 276,327   | 11.16  | 99,078    |

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As of December 31, 2006:

|  |            |        |            |
|--|------------|--------|------------|
| Total Capital (to risk-weighted assets)    | \$ 302,805 | 13.54% | \$ 178,857 |
| Core Capital (to adjusted tangible assets) | 277,593    | 9.25   | 120,084    |
| Tangible Capital (to tangible assets)      | 277,593    | 9.25   | 45,032     |
| Tier 1 Capital (to risk-weighted assets)   | 277,593    | 12.42  | 89,429     |

We have a simple capital structure with one class of \$0.01 par common stock outstanding, each share having equal voting rights. In addition, we have authorized 7,500,000 shares of \$0.01 par preferred stock. No preferred stock was outstanding at December 31, 2007 and 2006. When infused into the Bank, the Trust Preferred Securities issued in 2005 qualify as Tier 1 capital. We are prohibited from paying any dividend or making any other capital distribution if, after making the distribution, we would be undercapitalized within the meaning of the OTS Prompt Corrective Action regulations. Since 1996, the Board of Directors has approved several stock repurchase programs to reacquire common shares. As part of these programs, we acquired approximately 564,100 shares in 2007 for \$36.2 million and 103,400 shares in 2006 for \$6.6 million.

### The Holding Company

In April 2005, WSFS Capital Trust III, an unconsolidated affiliate of WSFS Financial Corporation, issued \$67.0 million of aggregate principle of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. The proceeds were used to refinance the WSFS Capital Trust I November 1998 issuance of \$51.5 million of Trust Preferred Securities which had a variable rate of 250 basis points over the three-month LIBOR rate. At December 31, 2007, the coupon rate of the Capital Trust III securities was 6.89% with a scheduled maturity of June 1, 2035. The Company purchased an interest rate cap that economically limits the three-month LIBOR to 6.00% on \$50.0 million of the \$67.0 million of securities until December 2008. The effective rate of these securities, including the cost of the cap was 7.00% at December 31, 2007. The effective rate will vary, however, due to fluctuations in interest rates and changes in the fair value of the cap. The proceeds from the issue were invested in Junior Subordinated Debentures issued by WSFS Financial Corporation. These securities are treated as borrowings with the interest included in interest expense on the Consolidated Statement of Operations. Additional information concerning the Trust Preferred Securities and the interest rate cap is included in Notes 9 and 18 to the Consolidated Financial Statements. The proceeds were used primarily to extinguish higher rate debt and for general corporate purposes.

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

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### 11. ASSOCIATE (EMPLOYEE) BENEFIT PLANS

#### Associate 401(k) Savings Plan

Certain subsidiaries of ours maintain a qualified plan in which Associates may participate. Participants in the plan may elect to direct a portion of their wages into investment accounts that include professionally managed mutual and money market funds and our common stock. Generally, the principal and earnings thereon are tax deferred until withdrawn. We match a portion of the Associates' contributions and periodically make discretionary contributions based on our performance into the plan for the benefit of Associates. Our total cash contributions to the plan on behalf of our Associates resulted in a cash expenditure of \$1.7 million, \$1.6 million and \$1.4 million for 2007, 2006 and 2005, respectively.

Effective November 2007, all of our discretionary contributions are invested in accordance with the Associates' selection of investments. If Associates do not designate how discretionary contributions are to be invested, 80% will be invested in a balanced fund and 20% will be invested in our common stock. Associates may make transfers to various other

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investment vehicles within the plan without any significant restrictions. The plan purchased 25,000, 13,000 and 36,000 shares of our common stock during 2007, 2006 and 2005, respectively.

#### Postretirement Benefits

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

We account for our obligations under the provisions of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). SFAS 106 requires that the costs of these benefits be recognized over an Associate's active working career. Amortization of unrecognized net gains or losses resulting from experience different from that assumed and from changes in assumptions is included as a component of net periodic benefit cost over the remaining service period of active employees to the extent that such gains and losses exceed 10% of the accumulated postretirement benefit obligation, as of the beginning of the year. Disclosures for 2007 and 2006 are in accordance with SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), while disclosures for 2005 are in accordance with SFAS No. 132 (Revised), Employers' Disclosure About Pensions and Other Postretirement Benefits.

On December 31, 2006, we adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 requires that we recognize the funded status of our defined benefit postretirement plan in our statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, Employers' Accounting for Pensions (SFAS 87), all of which were previously netted against the plan's funded status in our statement of financial position pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as net periodic pension costs pursuant to our historical accounting policy for

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amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS 158.

The incremental effect of adopting the recognition and disclosure provisions of SFAS 158 on our Consolidated Statement of Condition at December 31, 2006 was a \$905,000 (pretax) decrease in other comprehensive income. This included a net actuarial loss of \$537,000 and a net transition obligation of \$368,000. Also related to the adoption of SFAS 158, the Company recorded a deferred tax asset of \$344,000 and a corresponding liability of \$905,000. During 2008, the Company expects to recognize \$16,000 in expense relating to the amortization of the net actuarial loss and \$61,000 in expense relating to the amortization of the net transition obligation.

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The following disclosures relating to postretirement benefits were measured at December 31, 2007:

|  | 2007       |        |
|--|------------|--------|
| -----  |            |        |
| (Dollars in Thousands)                         |            |        |
| -----  |            |        |
| Change in benefit obligation:                  |            |        |
| Benefit obligation at beginning of year        | \$ 2,233   | \$ 2,  |
| Service cost                                   | 137        |        |
| Interest cost                                  | 125        |        |
| Actuarial (gain)/loss                          | (29)       | (      |
| Benefits paid                                  | (127)      | (      |
| -----  |            |        |
| Benefit obligation at end of year              | \$ 2,339   | \$ 2,  |
| -----  |            |        |
| Change in plan assets:                         |            |        |
| Fair value of plan assets at beginning of year | \$ -       | \$     |
| Employer contributions                         | 127        |        |
| Benefits paid                                  | (127)      | (      |
| -----  |            |        |
| Fair value of plan assets at end of year       | \$ -       | \$     |
| -----  |            |        |
| Funded status:                                 |            |        |
| Funded status                                  | \$ (2,339) | \$ (2, |
| Unrecognized transition obligation             | -          |        |
| Unrecognized net loss                          | -          |        |
| Recognized net loss                            | 795        |        |
| -----  |            |        |
| Net amount recognized                          | \$ (1,544) | \$ (1, |
| -----  |            |        |
| Components of net periodic benefit cost:       |            |        |
| Service cost                                   | 137        | \$     |
| Interest cost                                  | 125        |        |
| Amortization of transition obligation          | 61         |        |



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|   |    |       |    |
|---|----|-------|----|
| Net loss recognition  |    | 19    |    |
| Net periodic benefit cost   | \$ | 342   | \$ |
| Assumptions used to determine net periodic benefit cost:                            |    |       |    |
| Discount rate   |    | 5.75% | 5  |
| Health care cost trend rate   |    | 5.00% | 5  |
| Sensitivity analysis of health care cost trends:                                    |    |       |    |
| Effect of +1% on service cost plus interest cost                                    | \$ | (7)   | \$ |
| Effect of -1% on service cost plus interest cost                                    |    | 7     |    |
| Effect of +1% on APBO   |    | (74)  |    |
| Effect of -1% on APBO   |    | 63    |    |
| Assumptions used to value the Accumulated Postretirement Benefit Obligation (APBO): |    |       |    |
| Discount rate   |    | 6.00% | 5  |
| Health care cost trend rate   |    | 5.00% | 5  |
| Ultimate trend rate   |    | 5.00% | 5  |
| Year of ultimate trend rate   |    | 2005  | 2  |

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Estimated future benefit payments:

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

|                          |    |       |
|--------------------------|----|-------|
| During 2008              | \$ | 109   |
| During 2009              |    | 110   |
| During 2010              |    | 111   |
| During 2011              |    | 111   |
| During 2012              |    | 118   |
| During 2013 through 2017 |    | 717   |
|                          | \$ | 1,276 |

We assume that the average annual rate of increase for medical benefits will remain flat and stabilize at an average increase of 5% per annum. The costs incurred for retirees' health care are limited since certain current and all future retirees are restricted to an annual medical premium cap indexed (since 1995) by the lesser of 4% or the actual increase in medical premiums paid by the Company. For 2007, this annual premium cap amounted to \$2,308 per retiree. We estimate that we will contribute approximately \$109,000 to the plan during fiscal 2008.

We have three additional plans. They are a Supplemental Pension Plan with a corresponding liability of \$700,000, an Early Retirement Window Plan with a corresponding liability of \$455,000 and a Director's Plan with a corresponding liability of \$146,000.

12. TAXES ON INCOME

The Company and its subsidiaries, with the exception of WSFS Reit, Inc., file a consolidated federal income tax return and separate state income tax returns. WSFS Reit, Inc. files separate federal and state income tax returns. Our income tax provision consists of the following:

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| Year Ended December 31, | 2007             | 2006             | 2005             |
|-------------------------|------------------|------------------|------------------|
| (In Thousands)          |                  |                  |                  |
| Current income taxes:   |                  |                  |                  |
| Federal taxes           | \$ 10,389        | \$ 14,662        | \$ 11,118        |
| State and local taxes   | 2,274            | 2,278            | 2,197            |
| Deferred income taxes:  |                  |                  |                  |
| Federal taxes           | 811              | (1,336)          | 1,445            |
| State and local taxes   | -                | 56               | 87               |
| <b>Total</b>            | <b>\$ 13,474</b> | <b>\$ 15,660</b> | <b>\$ 14,847</b> |

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of our deferred tax assets and liabilities as of December 31, 2007 and 2006:

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|  | 2007             | 2006             |
|--|------------------|------------------|
| (In Thousands)                                     |                  |                  |
| Deferred tax liabilities:                          |                  |                  |
| Accelerated depreciation                           | \$ (618)         | \$ (488)         |
| Other  | (24)             | (110)            |
| Prepaid expenses                                   | (1,505)          | (1,490)          |
| Deferred loan costs                                | (2,100)          | (2,005)          |
| <b>Total deferred tax liabilities</b>              | <b>(4,247)</b>   | <b>(4,093)</b>   |
| Deferred tax assets:                               |                  |                  |
| Bad debt deductions                                | 8,838            | 9,585            |
| Tax credit carryforwards                           | 150              | 150              |
| Net operating loss carryforwards                   | 2,482            | 3,406            |
| Capital loss carryforwards                         | 93               | 679              |
| Loan fees  | 3                | 14               |
| Reserves and other                                 | 2,732            | 2,033            |
| Deferred gains                                     | 439              | -                |
| Unrealized losses on available-for-sale securities | 2,366            | 5,255            |
| <b>Total deferred tax assets</b>                   | <b>17,103</b>    | <b>21,122</b>    |
| <b>Valuation allowance</b>                         | <b>(2,178)</b>   | <b>(2,651)</b>   |
| <b>Net deferred tax asset</b>                      | <b>\$ 10,678</b> | <b>\$ 14,378</b> |

Included in the table above is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized. Such

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items consisted primarily of unrealized gains and losses on certain investments in debt and equity securities accounted for under SFAS 115.

Based on our history of prior earnings and our expectations of the future, it is anticipated that operating income and the reversal pattern of its temporary differences will, more likely than not, be sufficient to realize a net deferred tax asset of \$10.7 million at December 31, 2007. Adjustments to decrease gross deferred tax assets and the related valuation allowance in the amount of \$473,000, \$51,000 and \$110,000 were made in 2007, 2006 and 2005, respectively, to reflect state tax net operating losses that have expired.

Approximately \$221,000 in our gross deferred tax assets at December 31, 2007 was related to state tax net operating losses. We assessed a valuation allowance of \$221,000 on this entire deferred tax asset due to an expectation of such net operating losses expiring before being utilized.

We have \$267,000 of capital loss carryforwards that will expire on December 31, 2011. Net operating loss carryforwards (NOLs) of \$10.2 million remain at December 31, 2007. The expiration dates and amounts of such NOL carryforwards are listed below:

|           | Federal<br>----- | State<br>----- |
|-----------|------------------|----------------|
|           | (In Thousands)   |                |
| 2008..... | \$ 1,294         | \$ -           |
| 2009..... | 5,165            | -              |
| 2018..... | -                | 3,732          |
|           | -----            | -----          |
|           | \$ 6,459         | \$ 3,732       |
|           | =====            | =====          |

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Our ability to use our federal NOLs to offset future income is subject to restrictions enacted in Section 382 of the Internal Revenue Code. These restrictions limit a company's future use of NOLs if there is a significant ownership change in a company's stock (an "Ownership Change"). The utilization of approximately \$6.5 million of federal net operating loss carryforwards is limited to approximately \$1.3 million each year as a result of such Ownership Change in a former subsidiary's stock. At December 31, 2007, approximately \$2.4 million in our gross deferred tax assets was related to net operating losses and tax credits attributable to a former subsidiary. We have assessed a valuation allowance of \$2.0 million on a portion of these deferred tax assets due to limitations imposed by the Internal Revenue Code.

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

| Year Ended December 31,              | 2007  | 2006  | 2005  |
|--------------------------------------|-------|-------|-------|
|                                      |       |       |       |
| Statutory federal income tax rate    | 35.0% | 35.0% | 35.0% |
| State tax net of federal tax benefit | 3.4   | 3.2   | 3.2   |
| Interest income 50% excludable       | (1.7) | (1.6) | (1.7) |
| Bank-owned life insurance income     | (1.8) | (3.0) | (1.6) |
| Charitable donation                  | (5.0) | -     | -     |
| Incentive stock option compensation  | 0.5   | 0.6   | -     |

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|                    |       |       |       |
|--------------------|-------|-------|-------|
| Other              | 0.8   | (0.2) | (0.1) |
| -----              |       |       |       |
| Effective tax rate | 31.2% | 34.0% | 34.8% |
| -----              |       |       |       |

During 2007, we donated a N.C. Wyeth mural which was previously displayed in our former headquarters. The estimated fair value of the mural was \$6.0 million, which was recorded as a charitable contribution expense. We recognized a related offsetting gain on the transfer of the asset during 2007. The expense and offsetting gain was shown net in our Consolidated Financial Statements. As the gain on the transfer of the asset is permanently excludible from taxation, the charitable contribution transaction results in a permanent deduction for income tax purposes. The amount of the deduction represents an income tax uncertainty because it is subject to evaluation by the Internal Revenue Service.

We record interest and penalties on potential income tax deficiencies as income tax expense. Federal tax years 2004 through 2007 remain subject to examination as of December 31, 2007, while tax years 2004 through 2007 remain subject to examination by state taxing jurisdictions. Our 2004, 2005 and 2006 federal income tax returns are currently being examined. No state income tax return examinations are currently in process. We believe it is reasonably possible that between \$500,000 and \$1.2 million of unrecognized state tax benefits, net of federal tax, will be realized during 2008 as a result of the expiration of statutes of limitations. It is also reasonably possible that between \$100,000 and \$300,000 of additional reserves will be established during 2008 related to interest on existing unrecognized state tax benefits.

During 2007, an additional \$3.6 million tax reserve was established related primarily to the Internal Revenue Service ("IRS") disallowance of the deduction for certain compensation in prior periods. This adjustment was the result of a routine IRS audit of our 2004 through 2006 tax years. Because the original tax benefit for this item was recorded as an increase to equity, \$3.4 million of the tax liability was recorded as a reduction to equity in 2007. Even though this matter is not yet settled, standards under FIN 48 require this reserve to be established during 2007. In order to stop interest from accruing on this tax liability until the matter can be resolved through the IRS appeals process, we deposited the entire \$3.4 million plus interest in 2007 so that no reserve remains for this matter as of December 31, 2007.

The total amount of unrecognized tax benefits as of December 31, 2007 was \$2.6 million, all of which would affect our effective tax rate if recognized. The total amount of accrued interest and penalties included in such unrecognized tax

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benefits were \$660,000 and \$0, respectively, which approximates the amount of related expense in 2007. A reconciliation of the total amounts of unrecognized tax benefits during 2007 is as follows:

|  |         |
|--|---------|
| (In Thousands)   |         |
| Unrecognized tax benefits at December 31, 2006                       | \$4,544 |
| Reduction resulting from implementation of FIN 48 on January 1, 2007 | (1,988) |
| Additions as a result of tax positions taken during prior years      | 3,416   |
| Additions as a result of tax positions taken during current year     | 416     |
| Reductions relating to settlements with taxing authorities           | (3,671) |
| Reductions as a result of a lapse of statutes of limitations         | (85)    |
| -----  |         |
| Unrecognized tax benefits at December 31, 2007                       | \$2,632 |

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### 13. STOCK-BASED COMPENSATION

Stock-based compensation is accounted for in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). We adopted SFAS 123R beginning January 1, 2006 using the Modified Prospective Application Method.

We have stock options outstanding under two plans (collectively, "Stock Incentive Plans") for officers, directors and Associates of the Company and its subsidiaries. After shareholder approval in 2005, the 1997 Stock Option Plan ("1997 Plan") was replaced by the 2005 Incentive Plan ("2005 Plan"). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. The number of shares reserved for issuance under the 2005 Plan is 862,000. At December 31, 2007, there were 380,121 shares available for future grants under the 2005 Plan.

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as nonincentive stock options (collectively, "Stock Options"). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of our common stock on the date of the grant. All Stock Options granted during 2007 vest in 20% or 25% per annum increments, start to become exercisable one year from the grant date and expire between five and ten years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans.

A summary of the status of our Option Plans as of December 31, 2007, 2006 and 2005, and changes during the years then ended is presented below:

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|  | 2007     |                                    | 2006      |                                    |      |
|--|----------|------------------------------------|-----------|------------------------------------|------|
|  | Shares   | Weighted-Average<br>Exercise Price | Shares    | Weighted-Average<br>Exercise Price |      |
| Exercise Price                                   |          |                                    |           |                                    |      |
| Stock Options:                                   |          |                                    |           |                                    |      |
| Outstanding at beginning of year                 | 703,427  | \$ 39.52                           | 742,404   | \$ 31.92                           | 86   |
| Granted  | 121,375  | 54.25                              | 106,905   | 64.93                              | 10   |
| Exercised  | (80,836) | 23.85                              | (143,346) | 19.01                              | (22) |
| Forfeited  | (21,384) | 60.08                              | (2,536)   | 46.19                              | (1)  |
|  | 722,582  | 43.14                              | 703,427   | 39.52                              | 74   |
| Outstanding at end of year                       | 722,582  | 43.14                              | 703,427   | 39.52                              | 74   |
| Exercisable at end of year                       | 438,458  | 33.40                              | 416,773   | 26.91                              | 43   |
| Weighted-average fair value<br>of awards granted | \$ 11.36 |                                    | \$ 13.52  |                                    | \$   |

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Beginning January 1, 2007, 416,773 stock options were exercisable with an intrinsic value of \$10.0 million. In addition, at January 1, 2007 there were 286,654 nonvested options with a grant date fair value of \$12.76. During the year ended December 31, 2007, 103,286 options vested with an intrinsic value of \$550,000, and a grant date fair value of \$11.86 per option. Also during 2007, 80,836 options were exercised with an intrinsic value of \$3.3 million. In addition, 765 vested options were forfeited with an intrinsic value of \$6,000 and a grant date fair value of \$13.32, while 21,384 options were forfeited in total with a grant date fair value of \$13.34. There were 438,458 exercisable options remaining at December 31, 2007, with an intrinsic value of \$8.4 million and a remaining contractual term of 4.2 years. At December 31, 2007 there were 722,582 stock options outstanding with an intrinsic value of \$8.5 million and a remaining contractual term of 4.4 years and 284,124 nonvested options with a grant date fair value of \$12.45. During 2006, 143,346 options were exercised with an intrinsic value of \$6.2 million and 125,235 options vested with a grant date fair value of \$9.91 per option.

The total amount of compensation cost related to nonvested stock options as of December 31, 2007 was \$2.1 million. The weighted-average period over which it is expected to be recognized is 2.9 years. We issue new shares upon the exercise of options.

During 2007, we granted 121,320 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options. Significant assumptions used in the model included a weighted-average risk-free rate of return of between 3.3% and 4.7% in 2007; an expected option life of three and three-quarter years; and an expected stock price volatility of between 18.7% and 21.8% in 2007. For the purposes of this option-pricing model, a dividend yield of between 0.5% and 0.7% was used as the expected dividend yield. The expected option life was determined based on the mid-point between the vesting date and the end of the contractual term.

Also during 2007, we granted 55 options with a ten-year life and a five-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 4.7% in 2007; an expected option life of six and one-half years; and an expected stock price volatility of 21.1% in 2007 based on our historical volatility of our own common stock over a period that approximates the expected term of the award. For the purposes of this option-pricing model, a dividend yield of 0.5% was used as the expected dividend yield. The expected option life was based on the mid-point between the vesting date and the end of the contractual term.

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Prior to adoption of SFAS 123R, we used a graded-vesting schedule to calculate the expense related to stock options. Since the adoption of SFAS 123R, we recognize compensation expense related to new stock options issued on a straight-line basis over the applicable service period.

The Black-Scholes and other option-pricing models assume that options are freely tradable and immediately vested. Since options are not transferable, have vesting provisions, and are subject to trading blackout periods imposed by us, the value calculated by the Black-Scholes model may significantly overstate the true economic value of the options.

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The impact of stock-based compensation for the year ended December 31, 2007 was \$1.2 million pretax (\$1.0 million after tax), or \$0.16 per share, to salaries, benefits and other compensation, compared to \$1.5 million pretax (\$1.3 million after tax), or \$0.19 per share in 2006. Prior to the adoption of SFAS 123R, we applied Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for the Stock Incentive Plans and to provide the required pro forma disclosures of SFAS No.123 Accounting for Stock-Based Compensation (SFAS 123). Had the grant date fair value provisions of SFAS 123 been adopted, the Company would have recognized pretax compensation expense of \$1.2 million in 2005 related to its Stock Incentive Plans.

The following table summarizes all stock options outstanding and exercisable for Option Plans as of December 31, 2007, segmented by range of exercise prices:

|                 | Outstanding |                                       |   | Exercisable |                                       |
|-----------------|-------------|---------------------------------------|---|-------------|---------------------------------------|
|                 | Number      | Weighted-Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual Life | Number      | Weighted-Average<br>Exercise<br>Price |
| Stock Options:  |             |                                       |   |             |                                       |
| \$ 6.90-\$13.80 | 59,357      | \$ 10.96                              | 2.7 years   | 59,357      | \$ 10.96                              |
| \$13.81-\$20.70 | 142,503     | 16.67                                 | 3.4 years   | 142,503     | 16.67                                 |
| \$20.71-\$27.60 | -           | -                                     | - years   | -           | -                                     |
| \$27.61-\$34.50 | 71,765      | 33.36                                 | 4.8 years   | 70,965      | 33.38                                 |
| \$34.51-\$41.40 | -           | -                                     | - years   | -           | -                                     |
| \$41.41-\$48.30 | 70,695      | 43.78                                 | 5.8 years   | 55,178      | 43.76                                 |
| \$48.31-\$55.20 | 119,065     | 53.31                                 | 5.0 years   | 2,416       | 51.10                                 |
| \$55.21-\$62.10 | 73,192      | 58.91                                 | 6.8 years   | 41,631      | 58.83                                 |
| \$62.11-\$69.00 | 186,005     | 64.50                                 | 3.5 years   | 66,408      | 64.18                                 |
|                 |             |                                       |   |             |                                       |
| Total           | 722,582     | \$43.14                               | 4.4 years   | 438,458     | \$33.40                               |
|                 | =====       |                                       |   | =====       |                                       |

During 2007, 2006 and 2005, we issued 129, 15,269 and 30 shares, respectively, of restricted stock. These awards vest over five years: 0% in the first two years, 25% in each of the third and fourth years and 50% in the fifth year.

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#### 14. COMMITMENTS AND CONTINGENCIES

##### Lending Operations

At December 31, 2007, we had commitments to extend credit of \$586.3 million. Consumer lines of credit totaled \$48.7 million of which \$31.5 million was secured by real estate. Outstanding letters of credit were \$46.0 million and outstanding commitments to make or acquire mortgage loans aggregated \$8.4 million. Approximately \$565,000 of these mortgage loan commitments were at fixed rates ranging from 5.13% to 8.25%, and approximately \$7.9 million were at

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variable rates ranging from 5.13% to 7.50%. Mortgage commitments generally have closing dates within a six-month period.

### Data Processing Operations

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

|           |         |
|-----------|---------|
| 2008..... | \$3,848 |
| 2009..... | 3,635   |
| 2010..... | 858     |
| 2011..... | 11      |

### Legal Proceedings

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

We, as successor to originators, are from time to time involved in arbitration or litigation with reverse mortgage loan borrowers or with the heirs of borrowers. Because reverse mortgages are a relatively new and uncommon product, there can be no assurances regarding how the courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of our reverse mortgage rights and obligations.

### Financial Instruments With Off-Balance Sheet Risk

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

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

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

| December 31,   | 2007      | 2006      |
|--|-----------|-----------|
| -----  |           |           |
| (In Thousands)   |           |           |
| Financial instruments with contract amounts which represent potential credit risk: |           |           |
| Construction loan commitments  | \$154,875 | \$127,858 |
| Commercial mortgage loan commitments   | 105,094   | 96,618    |
| Commercial loan commitments  | 223,181   | 209,125   |
| Commercial standby letters of credit   | 45,977    | 40,594    |
| Residential mortgage loan commitments  | 8,435     | 12,320    |
| Consumer loan commitments  | 48,690    | 46,315    |

Commitments to extend credit are agreements to lend to a customer as



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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 are conditional commitments issued to guarantee the performance of a customer to a third party. We evaluate each customer's creditworthiness and obtain collateral based on management's credit evaluation of the counterparty.

### Indemnifications

**Secondary Market Loan Sales.** We generally do not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances first payment default by the borrower. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. We typically sell fixed-rate, conforming first mortgage loans in the secondary market as part of our ongoing asset/liability management program. Loans held-for-sale are carried at the lower of cost or market of the aggregate or in some cases individual loans. Gains and losses on sales of loans are recognized at the time of the sale.

As is customary in such sales, we provide indemnifications to the buyers under certain circumstances. These indemnifications may include the repurchase of loans by us. Repurchases and losses are rare, and no provision is made for losses at the time of sale. During 2007, we had no repurchases.

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

At December 31, 2007, there were twenty-six variable-rate to fixed-rate swap transactions between the third-party financial institution and our customers with an initial notional amount aggregating approximately \$108.3 million, and with maturities ranging from four months to fifteen years. The aggregate market value of these swaps to the customers was a liability of \$4.7 million as of December 31, 2007, and essentially all of the swap transactions were in a paying position to third-party financial institutions.

**ATM Cash Management.** We entered into an agreement with a financial institution, whereby they provide cash for distribution/cash management by CashConnect, our ATM division. Under this agreement we accept the operational risk

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associated with this cash and are legally bound to reimburse the financial institution for any related operational losses. We have taken steps to mitigate the risk of loss to us by purchasing a multi-layer insurance policy and instituting strong operational controls. Additionally, CashConnect has the ability to recover losses from its vault cash customers based on the strength of our ATM cash bailment agreements, which hold the ATM vault cash customers responsible for any loss of cash, which is not a result of our gross negligence.

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### 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

**Investments and Mortgage-Backed Securities:** Fair value for investment and mortgage-backed securities is 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. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral.

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

**Interest Rate Cap:** The fair value is estimated using a standard sophisticated option model.

**Class "O" Certificates:** The fair value of the option to purchase 49.9% of the Class "O" Certificates of SASCO 2002 RM1 is based on the net present value of the forecasted cash flows. The forecasted cash flows are based on assumptions about the life expectancy of the mortgagee, current collateral values, the future change in collateral values, and future interest rates. The current assumptions include a short-term annual appreciation rate of -8.0% in the first year and a long-term annual appreciation rate of 0.5% in future years. These projected cash flows are discounted at an appropriate discount rate. The discount rate is derived using the "Build-up Model" taking into account as a base the risk free rate of return and adding individual factors unique and applicable to the cash flows of the Class "O" Certificates. The discount rate currently used is approximately 21%. Finally, since the Class "O" Certificates represent the equity tranche of SASCO 2002 RM1, a 15% illiquidity discount is applied to the resulting net present value.

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**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 assumed to be equal to the amount payable on demand. The carrying value of variable rate time deposits and time deposits that reprice frequently also approximates 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 us for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

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

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

| December 31,                                  | 2007       |            |
|---|------------|------------|
|   | Book Value | Fair Value |
| (In Thousands)                                |            |            |
| <b>Financial assets:</b>                      |            |            |
| Cash and cash equivalents                     | \$ 267,537 | \$ 267,537 |
| Investment securities                         | 28,272     | 28,254     |
| Mortgage-backed securities                    | 496,792    | 496,284    |
| Loans, net                                    | 2,233,980  | 2,240,847  |
| Bank-owned life insurance                     | 57,551     | 57,551     |
| Stock in Federal Home Loan Bank of Pittsburgh | 45,537     | 45,455     |
| Accrued interest receivable                   | 12,905     | 12,905     |
| Interest rate cap                             | -          | -          |
| Option to purchase Class "O" Certificates     | -          | 147        |
| <b>Financial liabilities:</b>                 |            |            |
| Deposits                                      | 1,827,161  | 1,811,947  |
| Borrowed funds                                | 1,135,160  | 1,136,020  |
| Accrued interest payable                      | 10,189     | 10,189     |

The estimated fair value of our off-balance sheet financial instruments is as follows:

| December 31,                          |
|---------------------------------------|
| (In Thousands)                        |
| <b>Off-balance sheet instruments:</b> |
| Commitments to extend credit          |
| Standby letters of credit             |

## 16. RELATED PARTY TRANSACTIONS

We routinely enter into transactions with our directors and officers. Such transactions are made in the ordinary course of business. The aggregate amount of loans to such related parties was \$5.4 million and \$5.1 million at December 31, 2007 and 2006, respectively. During 2007, new loans and credit line advances to such related parties amounted to \$7.0 million and repayments amounted to \$6.8 million.

We engage a law firm that is affiliated with one of our directors for general legal services. Total fees for such services amounted to \$56,000 during 2007.

Our Chairman was also the Chairman of the FHLB of Pittsburgh through December 31, 2007. At December 31, 2007, we had borrowed funds outstanding from the FHLB of Pittsburgh of \$898.3 million and owned \$45.5 million of FHLB of Pittsburgh stock.

## 17. PARENT COMPANY FINANCIAL INFORMATION

## Condensed Statement of Financial Condition

| December 31,                               | 2007       | 2006       |
|--|------------|------------|
| -----                                      |            |            |
| (In Thousands)                             |            |            |
| Assets:                                    |            |            |
| Cash                                       | \$ 682     | \$ 4,984   |
| Investment in subsidiaries                 | 275,258    | 270,994    |
| Investment in interest rate cap            | -          | 30         |
| Investment in Capital Trust III            | 2,011      | 2,011      |
| Other assets                               | 800        | 1,499      |
| -----                                      |            |            |
| Total assets                               | \$ 278,751 | \$ 279,518 |
| -----                                      |            |            |
| Liabilities:                               |            |            |
| Borrowings                                 | \$ 67,011  | \$ 67,011  |
| Interest payable                           | 372        | 412        |
| Other liabilities                          | 38         | 36         |
| -----                                      |            |            |
| Total liabilities                          | 67,421     | 67,459     |
| -----                                      |            |            |
| Stockholders' equity:                      |            |            |
| Common stock                               | 157        | 156        |
| Capital in excess of par value             | 83,077     | 81,580     |
| Comprehensive loss                         | (3,861)    | (8,573)    |
| Retained earnings                          | 376,682    | 347,448    |
| Treasury stock                             | (244,725)  | (208,552)  |
| -----                                      |            |            |
| Total stockholders' equity                 | 211,330    | 212,059    |
| -----                                      |            |            |
| Total liabilities and stockholders' equity | \$ 278,751 | \$ 279,518 |
| -----                                      |            |            |

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Condensed Statement of Operations

| Year Ended December 31,<br>(In Thousands)                  | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|
| <b>Income:</b>   |           |           |           |
| Interest income  | \$ 337    | \$ 594    | \$ 533    |
| Noninterest income   | 166       | 354       | 139       |
|  | 503       | 948       | 672       |
| <b>Expenses:</b>   |           |           |           |
| Interest expense   | 4,752     | 5,053     | 5,292     |
| Other operating expenses                                   | (1,437)   | (1,386)   | (1,567)   |
|  | 3,315     | 3,667     | 3,725     |
| Loss before equity in undistributed income of subsidiaries | (2,812)   | (2,719)   | (3,053)   |
| Equity in undistributed income of subsidiaries             | 32,461    | 33,160    | 30,909    |
| Net income   | \$ 29,649 | \$ 30,441 | \$ 27,856 |

Condensed Statement of Cash Flows

| Year Ended December 31,<br>(In Thousands)                                      | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|
| <b>Operating activities:</b>   |           |           |           |
| Net income   | \$ 29,649 | \$ 30,441 | \$ 27,856 |
| Adjustments to reconcile net income to net cash used for operating activities: |           |           |           |
| Equity in undistributed income of subsidiaries                                 | (32,461)  | (33,160)  | (30,909)  |
| Amortization   | -         | 560       | 1,398     |
| Decrease (increase) in other assets  | 443       | (606)     | 432       |
| (Decrease) increase in other liabilities                                       | (38)      | 51        | 126       |
| Net cash used for operating activities   | (2,407)   | (2,714)   | (1,097)   |
| <b>Investing activities:</b>   |           |           |           |
| Decrease (increase) in investment in subsidiaries                              | 34,898    | (646)     | 28,210    |
| Net issuance of Pooled Floating Rate Capital Securities                        | -         |           | 17,011    |
| Net cash provided by (used for) investing activities                           | 34,898    | (646)     | 45,221    |
| <b>Financing activities:</b>   |           |           |           |
| Issuance of common stock   | 1,784     | 6,907     | 6,348     |

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|  |          |          |           |
|--|----------|----------|-----------|
| Dividends paid on common stock         | (2,403)  | (2,057)  | (1,845)   |
| Treasury stock, net of reissuance      | (36,174) | (6,603)  | (40,104)  |
| <hr/>                                  |          |          |           |
| Net cash used for financing activities | (36,793) | (1,753)  | (35,601)  |
| <hr/>                                  |          |          |           |
| (Decrease) increase in cash            | (4,302)  | (5,113)  | 8,523     |
| Cash at beginning of period            | 4,984    | 10,097   | 1,574     |
| <hr/>                                  |          |          |           |
| Cash at end of period                  | \$ 682   | \$ 4,984 | \$ 10,097 |
| <hr/>                                  |          |          |           |

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### 18. ACCOUNTING FOR INTEREST RATE CAP

We have an interest-rate cap with a notional amount of \$50.0 million, which limits three-month LIBOR to 6.00% for the ten years ending December 1, 2008. The fair value of the cap is estimated using a standard option model. The fair value of the interest rate cap at December 31, 2007 was essentially zero. The cap is considered a free standing derivative and all changes in the fair value of the cap are recorded in the Consolidated Statement of Operations. During 2007, we recognized \$30,000 of related interest expense.

### 19. SEGMENT INFORMATION

Under the definition of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131), we discuss our business in three segments. There is one segment for WSFS Bank and one for CashConnect, the ATM division of WSFS. The third segment, "All Others," represents the combined contributions of Montchanin, WSFS Investment Group, Inc., and our Wealth Management Services Division. Montchanin, WSFS Investment Group, Inc., and the Wealth Management Services Division each offer different products, to a separate customer base, through distinct distribution methods. Therefore, we have combined Montchanin, WSFS Investment Group, Inc., and the Wealth Management Services Division to form the operating segment "All Others." All prior years' information has been updated to reflect this presentation. The WSFS segment provides financial products to commercial and retail customers through its main office, 29 retail banking offices, loan production offices and operations centers. Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking and other banking business units are operating departments of WSFS. These departments share the same regulator, market, many of the same customers, share common resources (corporate and department-level) and provide similar products and services through the general infrastructure of the Company. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS segment of the Company in accordance with SFAS 131. CashConnect provides turnkey ATM services through strategic partnerships with several of the largest networks, manufacturers and service providers in the ATM industry. Montchanin provides asset management products and services to customers in the Company's primary market area. Montchanin has one consolidated wholly-owned subsidiary, Cypress Capital Management, LLC (Cypress). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. WSFS Investment Group, Inc. markets various third-party insurance products and securities directly to the public and through WSFS' retail banking system. The Wealth Management Services Division provides wealth management and personal trust services to

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customers in the Company's primary market area.

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An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the years ended December 31, 2007, 2006 and 2005 is shown below.

| For the Year Ended December 31, 2007: | WSFS       | CashConnect | All Others (1) |
|---------------------------------------|------------|-------------|----------------|
| -----                                 |            |             |                |
| (In Thousands)                        |            |             |                |
| External customer revenues:           |            |             |                |
| Interest income                       | \$ 189,477 | \$ -        | \$ -           |
| Noninterest income                    | 27,991     | 16,584      | 3,591          |
| -----                                 |            |             |                |
| Total external customer revenues      | 217,468    | 16,584      | 3,591          |
| -----                                 |            |             |                |
| Intersegment revenues:                |            |             |                |
| Interest income                       | 8,684      | -           | -              |
| Noninterest income                    | 2,544      | 675         | -              |
| -----                                 |            |             |                |
| Total intersegment revenues           | 11,228     | 675         | -              |
| -----                                 |            |             |                |
| Total revenue                         | 228,696    | 17,259      | 3,591          |
| -----                                 |            |             |                |
| External customer expenses:           |            |             |                |
| Interest expense                      | 107,468    | -           | -              |
| Noninterest expenses                  | 72,657     | 4,683       | 4,691          |
| Provision for loan loss               | 5,021      | -           | -              |
| -----                                 |            |             |                |
| Total external customer expenses      | 185,146    | 4,683       | 4,691          |
| -----                                 |            |             |                |
| Intersegment expenses:                |            |             |                |
| Interest expense                      | -          | 8,684       | -              |
| Noninterest expenses                  | 675        | 1,076       | 1,468          |
| -----                                 |            |             |                |
| Total intersegment expenses           | 675        | 9,760       | 1,468          |
| -----                                 |            |             |                |
| Total expenses                        | 185,821    | 14,443      | 6,159          |
| -----                                 |            |             |                |
| Income (loss) before taxes            | \$ 42,875  | \$ 2,816    | \$ (2,568)     |
| -----                                 |            |             |                |
| Provision for income taxes            |            |             |                |
| -----                                 |            |             |                |

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Consolidated net income

|                           |             |            |          |
|---------------------------|-------------|------------|----------|
| Cash and cash equivalents | \$ 83,650   | \$ 182,523 | \$ 1,364 |
| Other segment assets      | 2,913,328   | 17,314     | 2,009    |
| Total segment assets      | \$2,996,978 | \$ 199,837 | \$ 3,373 |
| Capital expenditures      | \$ 8,134    | \$ 194     | \$ 5     |

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.

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| For the Year Ended December 31, 2006: | WSFS       | CashConnect |
|---------------------------------------|------------|-------------|
| (In Thousands)                        |            |             |
| External customer revenues:           |            |             |
| Interest income                       | \$ 177,177 | \$ -        |
| Noninterest income                    | 21,472     | 15,644      |
| Total external customer revenues      | 198,649    | 15,644      |
| Intersegment revenues:                |            |             |
| Interest income                       | 8,071      | -           |
| Noninterest income                    | 1,704      | 685         |
| Total intersegment revenues           | 9,775      | 685         |
| Total revenue                         | 208,424    | 16,329      |
| External customer expenses:           |            |             |
| Interest expense                      | 99,278     | -           |
| Noninterest expenses                  | 61,521     | 4,222       |
| Provision for loan loss               | 2,738      | -           |
| Total external customer expenses      | 163,537    | 4,222       |
| Intersegment expenses:                |            |             |
| Interest expense                      | -          | 8,071       |
| Noninterest expenses                  | 685        | 688         |
| Total intersegment expenses           | 685        | 8,759       |
| Total expenses                        | 164,222    | 12,981      |



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|  |             |            |
|--|-------------|------------|
| Income (loss) before taxes and minority interest | \$ 44,202   | \$ 3,348   |
| Provision for income taxes                       |             |            |
| Minority interest                                |             |            |
| -----  |             |            |
| Consolidated net income                          |             |            |
| -----  |             |            |
| Cash and cash equivalents                        | \$ 74,905   | \$ 166,092 |
| Other segment assets                             | 2,738,531   | 15,228     |
| -----  |             |            |
| Total segment assets                             | \$2,813,436 | \$ 181,320 |
| -----  |             |            |
| Capital expenditures                             | \$ 9,790    | \$ 382     |

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.

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| For the Year Ended December 31, 2005: | WSFS       | CashConnect | All Other |
|---------------------------------------|------------|-------------|-----------|
| -----                                 |            |             |           |
| (In Thousands)                        |            |             |           |
| External customer revenues:           |            |             |           |
| Interest income                       | \$ 136,022 | \$ -        | \$ -      |
| Noninterest income                    | 18,544     | 12,539      |           |
| -----                                 |            |             |           |
| Total external customer revenues      | 154,566    | 12,539      |           |
| -----                                 |            |             |           |
| Intersegment revenues:                |            |             |           |
| Interest income                       | 4,729      | -           |           |
| Noninterest income                    | 1,671      | 682         |           |
| -----                                 |            |             |           |
| Total intersegment revenues           | 6,400      | 682         |           |
| -----                                 |            |             |           |
| Total revenue                         | 160,966    | 13,221      |           |
| -----                                 |            |             |           |
| External customer expenses:           |            |             |           |
| Interest expense                      | 62,380     | -           |           |
| Noninterest expenses                  | 55,351     | 3,956       |           |
| Provision for loan loss               | 2,582      | -           |           |
| -----                                 |            |             |           |
| Total external customer expenses      | 120,313    | 3,956       |           |
| -----                                 |            |             |           |
| Intersegment expenses:                |            |             |           |
| Interest expense                      | -          | 4,729       |           |
| Noninterest expenses                  | 682        | 778         |           |
| -----                                 |            |             |           |
| Total intersegment expenses           | 682        | 5,507       |           |
| -----                                 |            |             |           |

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|  |    |           |    |         |    |
|--|----|-----------|----|---------|----|
| Total expenses                                   |    | 120,995   |    | 9,463   |    |
| -----  |    |           |    |         |    |
| Income (loss) before taxes and minority interest | \$ | 39,971    | \$ | 3,758   | \$ |
| Provision for income taxes                       |    |           |    |         |    |
| Minority interest                                |    |           |    |         |    |
| -----  |    |           |    |         |    |
| Consolidated net income                          |    |           |    |         |    |
| -----  |    |           |    |         |    |
| Cash and cash equivalents                        | \$ | 59,109    | \$ | 174,527 | \$ |
| Other segment assets                             |    | 2,604,001 |    | 7,153   |    |
| -----  |    |           |    |         |    |
| Total segment assets                             | \$ | 2,663,110 | \$ | 181,680 | \$ |
| -----  |    |           |    |         |    |
| Capital expenditures                             | \$ | 15,656    | \$ | 811     | \$ |

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.

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QUARTERLY FINANCIAL SUMMARY (Unaudited)

| Three months ended                                  | 12/31/07 | 09/30/07 | 06/30/07 | 03/31/07 | 12/31/06 |
|---|----------|----------|----------|----------|----------|
| -----   |          |          |          |          |          |
| (In Thousands, Except Per Share Data)               |          |          |          |          |          |
| Interest income                                     | \$48,143 | \$47,579 | \$46,667 | \$47,088 | \$46,700 |
| Interest expense                                    | 27,433   | 27,480   | 26,527   | 26,028   | 26,610   |
| -----   |          |          |          |          |          |
| Net interest income                                 | 20,710   | 20,099   | 20,140   | 21,060   | 20,090   |
| Provision for loan losses                           | 2,376    | 1,001    | 1,273    | 371      | 1,030    |
| -----   |          |          |          |          |          |
| Net interest income after provision for loan losses | 18,334   | 19,098   | 18,867   | 20,689   | 19,060   |
| Noninterest income                                  | 13,008   | 12,809   | 11,616   | 10,733   | 11,070   |
| Noninterest expenses                                | 22,313   | 21,333   | 19,027   | 19,358   | 18,550   |
| -----   |          |          |          |          |          |
| Income before minority interest and taxes           | 9,029    | 10,574   | 11,456   | 12,064   | 11,570   |
| Less minority interest                              | -        | -        | -        | -        | 100      |
| -----   |          |          |          |          |          |
| Income before taxes                                 | 9,029    | 10,574   | 11,456   | 12,064   | 11,560   |
| Income tax provision                                | 1,533    | 3,431    | 4,227    | 4,283    | 3,960    |
| -----   |          |          |          |          |          |
| Net Income  | \$ 7,496 | \$ 7,143 | \$ 7,229 | \$ 7,781 | \$ 7,590 |
| -----   |          |          |          |          |          |
| Earnings per share:                                 |          |          |          |          |          |
| Basic   | 1.21     | 1.14     | 1.15     | 1.19     | 1.18     |
| Diluted   | 1.18     | 1.11     | 1.11     | 1.15     | 1.14     |

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

There are no matters required to be disclosed under this item.

ITEM 9A. CONTROLS AND PROCEDURES  
-----

Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting

To Our Stockholders:

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance to the Corporation's management and board of directors regarding the preparation and fair presentation of published financial statements.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2007, the Corporation's internal control over financial reporting is effective based on those criteria.

KPMG LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements as of and for the year ended December 31, 2007 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, as stated in their reports, which are included herein.

/s/ Mark A. Turner  
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Mark A. Turner  
President and Chief Executive Officer

/s/ Stephen A. Fowle  
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Stephen A. Fowle  
Executive Vice President and  
Chief Financial Officer

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Report of Independent Registered Public  
Accounting Firm

The Board of Directors and Stockholders  
WSFS Financial Corporation:

We have audited the internal control over financial reporting of WSFS Financial Corporation and subsidiaries (the Company) as of December 31, 2007, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, WSFS Financial Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of condition of the Company as of December 31, 2007 and 2006, 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, 2007, and our report dated March 17, 2008 expressed an unqualified opinion on those

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consolidated financial statements.

/s/ KPMG LLP

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Philadelphia, Pennsylvania  
March 17, 2008

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During the quarter ended December 31, 2007, there was no change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

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There are no matters required to be disclosed under this item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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The Information under "Section 16a Beneficial Ownership Reporting Compliance" and "Proposal 1 - Election of Directors" in the Registrant's definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on April 24, 2008 (the "Proxy Statement") is incorporated into this item by reference.

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. A copy of the Code of Ethics is posted on our website at [www.wsfsbank.com](http://www.wsfsbank.com).

ITEM 11. EXECUTIVE COMPENSATION

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The information under "Proposal I - Election of Directors" in the Proxy Statement is incorporated into this item by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
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RELATED SHAREHOLDER MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders Thereof" of the Proxy Statement

(b) Security Ownership of Management

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Information required by this item is incorporated herein by reference to the section captioned "Proposal 1 Election of Directors - Stock Ownership of Management" of the Proxy Statement

- (c) We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the registrant.
- (d) Securities Authorized for Issuance Under Equity Compensation Plans

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Shown below is information as of December 31, 2007 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

### Equity Compensation Plan Information

|   | (a)<br>Number of Securities<br>to be issued upon<br>exercise of outstanding<br>Options and<br>Phantom Stock Awards<br>----- | (b)<br>Weighted-Average<br>exercise price of<br>outstanding<br>Options and<br>Phantom Stock Awards<br>----- | (c) Number of se<br>remaining av<br>future issua<br>equity compen<br>(excluding<br>reflected in<br>----- |
|---|---|---|--|
| Equity compensation plans<br>approved by stockholders (1) | 722,582   | \$ 43.14  | 380  |
| Equity compensation plans<br>not approved by stockholders | n/a<br>-----  | n/a<br>-----  | -----  |
| TOTAL   | 722,582<br>=====  | \$ 43.143<br>=====  | 80<br>==   |

- (1) Plans approved by stockholders include the 1997 Stock Option Plan, as amended and the 2005 Incentive Plan.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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The information under "Business Relationships and Related Transactions" in the Proxy Statement is incorporated into this item by reference.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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The information under "Independent Public Accountants" in the Proxy Statement is incorporated into this item by reference.

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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(a) Listed below are all financial statements and exhibits filed as part of this report, and are incorporated by reference.

1. The consolidated statements of Condition of WSFS Financial Corporation and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2007, together with the related notes and the independent auditors' report of KPMG LLP, independent registered public accounting firm.
2. Schedules omitted as they are not applicable.

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

| Exhibit<br>Number<br>----- | Description of Document<br>-----   |
|----------------------------|--|
| 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                        | Amended and Restated Bylaws of WSFS Financial Corporation, incorporated herein by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.  |
| 10.1                       | WSFS Financial Corporation, 1994 Short Term Management Incentive Plan Summary Plan Description is incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.  |
| 10.2                       | Amended and Restated Wilmington Savings Fund Society, Federal Savings Bank 1997 Stock Option Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-26099) filed with the Commission on April 29, 1997.   |
| 10.3                       | 2000 Stock Option and Temporary Severance Agreement among Wilmington Savings Fund Society, Federal Savings Bank, WSFS Financial Corporation and Marvin N. Schoenhals on February 24, 2000 is incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. |
| 10.4                       | Severance Policy among Wilmington Savings Fund Society, Federal Savings Bank and certain Executives dated March 13, 2001, as amended is incorporated herein by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.  |
| 10.5                       | WSFS Financial Corporation's 2005 Incentive Plan is incorporated herein by reference to appendix A of the Registrant's Definitive Proxy Statement on Schedule 14-A for the 2005 Annual Meeting of Stockholders.  |

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- 21 Subsidiaries of Registrant.
- 23 Consent of KPMG LLP
- 31 Certification pursuant to Rule 13a-14 of the Exchange Act

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- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibits 10.1 through 10.4.1 represent management contracts or compensatory plan arrangements.

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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 17, 2008 BY: /s/ Mark A. Turner  
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Mark A. Turner  
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 17, 2008 BY: /s/ Marvin N. Schoenhals  
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Marvin N. Schoenhals  
Chairman

Date: March 17, 2008 BY: /s/ Mark A. Turner  
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Mark A. Turner  
President and Chief Executive Officer

Date: March 17, 2008 BY: /s/ Charles G. Cheleden  
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Charles G. Cheleden  
Vice Chairman and Lead Director

Date: March \_\_, 2008 BY: \_\_\_\_\_  
John F. Downey



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Director

Date: March 17, 2008 BY: /s/ Linda C. Drake  
-----  
Linda C. Drake  
Director

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Date: March 17, 2008 BY: /s/ David E. Hollowell  
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David E. Hollowell  
Director

Date: March 17, 2008 BY: /s/ Joseph R. Julian  
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Joseph R. Julian  
Director

Date: March 17, 2008 BY: /s/Dennis E. Klima  
-----  
Dennis E. Klima  
Director

Date: March 17, 2008 BY: /s/ Calvert A. Morgan, Jr.  
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Calvert A. Morgan, Jr.  
Director

Date: March 17, 2008 BY: /s/ Thomas P. Preston  
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Thomas P. Preston  
Director

Date: March 17, 2008 BY: /s/ Scott E. Reed  
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Scott E. Reed  
Director

Date: March 17, 2008 BY: /s/ Claibourne D. Smith  
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Claibourne D. Smith  
Director

Date: March 17, 2008 BY: /s/ Stephen A. Fowle  
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Stephen A. Fowle  
Executive Vice President and  
Chief Financial Officer

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Date: March 17, 2008

BY: /s/ Robert F. Mack

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Robert F. Mack  
Senior Vice President and Controller

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