WSFS FINANCIAL CORPORATION

Moderator: Jerry Vest
July 25, 2014
1:00 p.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the WSFS Financial Corporation second-quarter 2014 earnings call.

At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will follow at that time. If anyone should require operator assistance on today's conference, please press star and then zero on your touchtone telephone.

As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Steve Fowle, Chief Financial Officer. Sir, you may begin.

Steve Fowle: Thank you, Brad, and thanks to all of you for taking the time to participate on our call today. With me is Mark Turner, our President and CEO; Paul Geraghty, Chief Wealth Officer; Rodger Levenson, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer. Before Mark begins with his opening remarks, I'd like to read our Safe Harbor statement.

Our discussion today will include information about our Management's view of our future expectations, plans and prospects that constitute forward looking statements. Actual results may differ materially from historical results, or those indicated by these forward looking statements, due to risks and uncertainties, including, but not limited to, the risk factors included in our annual report on Form 10-K, and our most recent quarterly reports on Forms

10-Q, as well as other documents we periodically file with the Securities and Exchange Commission.

Having read that, I'll turn the call over to Mark Turner for his comments.

Mark Turner: Thanks, Steve, and thanks to everyone on the call for your time and attention.

WSFS reported a very good quarter. Coming off the season-and-weather-slowed first quarter, our core results, as expected, rebounded strongly.

Our highlights included Earnings per Share reached $1.39, or 20 percent greater than the more-comparable same quarter last year.

Core Return on Assets reached a cycle high of over 1.1 percent, and Return on Tangible Common Equity was a healthy 13.5 percent.

Loan growth continued our mid-to-high single-digit trend, with year-over-year growth at 8 percent, and quarterly annualized growth at 7 percent.

Core deposits continued to grow nicely, up 6 percent over this time last year, and 4 percent annualized in the quarter, with particularly strong growth in valuable non-interest-bearing deposits.

Total core revenue, (that is, excluding securities gains), grew 8 percent over the comparable quarter last year, and 5.6 percent un-annualized from the first quarter, propelled by both strong growth in net interest income (in both dollars and margin percentage), and growth in fee income.

Not only did growth in revenues obviously exceed growth in expenses, but also the pace of growth in revenues exceeded that of expenses, despite a small amount of corporate development costs for our impending closing of the FNB Wyoming Delaware transaction, and litigation costs related to a bankruptcy trustee claim, challenging our repayment on a $5 million loan dating back to 2009. Without these last two items, normalized operating leverage increased significantly.

Also helping the results in the quarter were solid improvements in credit quality and credit costs. Non-performing assets, delinquencies and the classified loan ratio were all better, to much better, in the quarter. This led to charge-offs, which, for the first time since before the 2008 financial crisis, were in a net recovery position for the period. As a result of the improved indicators in credit quality, and especially zero net charge-offs, we were able to post a very small provision for loan losses in the quarter; while at the same time we increased our allowance for loan losses slightly on a dollar basis, to accommodate for our new loan growth.

We are especially pleased that our very good performance this quarter came as a result of across-the-board franchise growth in loans, deposits, fee income, and margin, and was punctuated by solid credit quality and prudent provisioning, as evidenced by no net charge offs and no reserve release. Furthermore, our Banking, Wealth and Cash Connect ATM segments all continue to garner new and experienced Associates, and post healthy customer gains and revenue increases, which bodes well for future performance.

Our results demonstrate our solid position in our market, our well-respected brand and differentiated strategy, our ongoing returns on effective investments made over the past cycle, which we continued to optimize and selectively add to. In that regard, our late 2013 addition of Array and Arrow Financial has performed extremely well; and we are looking forward to our upcoming third-quarter 2014 partnership with FNB Wyoming performing as well.

Thank you again, and with that, we will take your questions.

Operator: Ladies and gentlemen, at this time, if you have a question, please press star then the one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press the pound key. One moment for our first question.

And our first question comes from the line of Frank Schiraldi. Your line is now open.

Frank Schiraldi: A couple questions if I could, just wondered, given we have another quarter reported here, and just wondered if you could comment on your previously disclosed goal of reaching 1.2 percent to 1.3 percent ROA by the end of – specifically by 4Q 2015, if you could just comment on your confidence in that goal?

Mark Turner: Thank you, and on our Web site soon, in preparation for a conference we are attending next week, we will give the normal quarterly update on that, in terms of what's possible, what we've achieved, and where we're going with that.

In summary, we started at 70 basis points six quarters ago now. We're now six quarter into it and we just reported about 1.1 percent. If you normalize that for credit costs it's probably a little over 1 percent ROA so we believe we are on track--if not a little bit ahead on a normalized basis--of our path to 1.2 percent to 1.3 percent as we exit 2015. Just to reiterate for people, 1.2 percent would be what we believe we can get to if the economy stays the same. It will take improvement in the economy, and improvements in the yield curve, for us to get to 1.3 percent.

Frank Schiraldi: You mentioned normalized credit costs, should we still assume, I think it was $3 million to $3.5 million a quarter, is that the expectation of normalized credit costs going forward?

Rodger Levenson: Frank, it is Rodger Levenson. Based upon the improvement in the metrics that we outlined in the release--really across the board, from an asset quality standpoint--we are estimating for the next two quarters each, total credit cost to be in the range of $2 million. I would remind you each quarter that includes provision, OREO expenses, loan work-out, et cetera.

Mark Turner: Obviously, as we saw in the first two quarters, that can be uneven.

Steve Fowle: Sure, and this is Steve. That is lower than we expect our long-term run rate to be. So when you look at the chart were going to be posting, that Mark referenced, it's actually assuming higher credit costs then Rodger is planning on for these next two quarters for our long term goal.

Frank Schiraldi: I just wondered if you could remind us when FNB comes onto the books, and what the expected accretion is associated with that company?

Steve Fowle: We have the closing of the transaction scheduled for September 5, so we're moving forward with that on plan. You may remember we talked about one-time transaction costs that we would be incurring. We have some of that behind us, and we've been disclosing overall corporate development costs quarterly. We think we have about $3.5 million of costs remaining that will impact our financial results. A large portion of that will be taken over the next couple of quarters. Excluding those costs, we have disclosed that we expect more than 3 percent earnings per share accretion from the transaction, and increasing as we move forward through time.

Frank Schiraldi: The more than 3 percent, would that be an initial accretion, or would that the first 12 months? I'm just trying to recall what your disclosure was.

Steve Fowle: That is first year out of the gate.

Frank Schiraldi: Got you. OK, and then finally, just a quickie on the litigation costs. You mentioned in the release that they will continue at an elevated level in the third quarter, and then, all else being equal, is that expected to fall back off for 4Q?

Steve Fowle: Yes, that really depends. We're right now at a very labor-intensive period, and we will be emerging from that as we go through the third quarter. What happens going forward really depends on the course that the case takes, and decisions we'll be making along the way. We can't give a lot more visibility because of the uncertainty around the course this case is going to be taking in the future.

Frank Schiraldi: These litigation costs, does this involve a reserve being taken, or is this something that's being paid out as we progress through the year? How should we, or how should I think about that?

Mark Turner: The costs in the third quarter were for attorneys and professional fees.

Frank Schiraldi: The costs in this quarter, or in the second quarter?

Mark Turner: I'm sorry, the second quarter, I apologize. We're in the third quarter. Any reserve we have on the books would be disclosed in our Q or SEC filings.

Frank Schiraldi: Got you. OK, well, thank you very much.

Operator: And once again ladies and gentlemen if you have a question at this time please press star then the one key on your touchtone telephone.

And our next question comes from the line of Jason O'Donnell from Merion Capital. Your line is now open.

Jason O’Donnell: My question, my first question relates to the funding strategy going forward, and you all, I think, put up high single digit earning asset growth in the second quarter annualized, which is nice to see, we're not seeing a lot of that out there. But if you talk a little bit about the strategy going forward on the funding side, and whether you would be willing to continue to borrow more meaningfully in the event loan growth accelerates over the next few quarters, or whether it would come squarely from core deposits or would you tap the securities portfolio? How do you think about the funding mix as we look over the next two or three quarters?

Mark Turner: I think the answer is, it's from a bunch of things, and we would evaluate that as we move through time. First and foremost, the acquisition will help, in that they have--FNB Wyoming has--more deposits than loans, so that will help funding right there. Then, we have said, especially where we are in the cycle and with interest rates at this point, we would be willing to let the securities portfolio run down to fund loan growth, and that will obviously help margin.

Other than that, we can, as we see what is appropriate in our marketplace, we can obviously dial-up deposits or dial back the deposit taking that we get. And then the last lever or fallback would be funding through Home Loan Bank or other non-core sources, and we have over $1 billion worth of availability from those sources. We have plenty of options and liquidity and we would tap those in a combination that, obviously, we saw best for profitability, liquidity, and interest rate risk.

Jason O'Donnell: My second question related to the margin. It looks like the margin was up a couple of basis points this quarter just excluding the impact of the days and the reverse mortgage income, incrementally. What is the outlook for the back half of the year, and specifically, if you could give us any color around deposit rates, and where you see deposit costs heading in the current environment?

Steve Fowle: This is Steve. I can talk to margin expectations. I will let Rick talk a little bit about what he is seeing on the deposit rates side. From a margin standpoint, we are expecting flat to slightly improving margin, very consistent with what we have talked about in the past, for this coming quarter and throughout the year. We continue to see positive, slight positive momentum, really around our loan growth, repositioning of our balance sheet, and pricing discipline we've maintained through the cycle.

Rick, on deposit pricing?

Rick Wright: This is Rick. In the current environment, we're not seeing anything different from the last several quarters. There's obviously a lot of competition out there, but I haven't seen any trend toward accelerated competition or accelerated rates, so I wouldn't expect to see those in the next couple of quarters.

Jason O'Donnell: OK, thank you.

Operator: I'm showing there are no further questions at this time. I would like to turn the call over to Mark Turner for closing remarks.

Mark Turner: There was one question we were expecting to get, and we did not get, so we will end the call with maybe an additional commentary on loan growth in the third quarter and through the rest of the year, before we go to concluding comments. Rodger?

Rodger Levenson: So, I just wanted to reaffirm our previous guidance that we expect over the long term and for this full year, of mid- to high single digits loan growth. We do have one large relationship that we've been expecting, and expect there to be a payoff on this quarter. We're not leaving the relationship; they're taking out some of the real estate related loans in the relationship into the permanent markets. As you know there's some very attractive terms in those markets. That may dampen the growth rate of little bit in the third quarter, but we expect to achieve the prior full-year guidance.

Mark Turner: Thank you, Rodger. Thanks to everyone again on the call. We look forward to seeing as many of you as possible at the New York City investor relations conference next week, so have a good weekend, everybody. Take care.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.

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