

THE NASDAQ OMX GROUP, INC.

Moderator: Evonda Acevedo
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12:00 p.m. ET

Operator: This is Conference # 50691266.

Operator: Good day, ladies and gentlemen. Welcome to the WSFS Financial Corporation's fourth quarter and full year 2016 earnings conference 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 assistance during this conference, please press star then zero on your touchtone telephone to reach an operator.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host for today, Mr. Dominic Canuso, Chief Financial Officer. Sir, you may begin.

Dominic Canuso: Thank you, Charlotte. Thanks to all of you for taking the time to participate on our call today.

With me on this call are Mark Turner, President and CEO; Rodger Levenson, Chief Corporate Development Officer; Paul Geraghty, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer.

Before Mark begins with his remarks, I would like to read our Safe Harbor statement. Our discussion today will include information about our

management's view of 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 the 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 Form 10-Q, as well as other documents we periodically file with the Securities and Exchange Commission.

With that read, I'll turn the discussion over to Mark Turner.

Mark Turner: Thanks Dominic, and thanks to everyone for your time and attention. WSFS reported net income for the quarter of \$18.1 million dollars and Earnings Per Share of \$0.56. This capped a year where we reported net income of \$64.1 million dollars or \$2.06 Per Share. Excluding years in the early 2000s where we had big gains on sales of businesses and portfolios, both of these results were record operating earnings for the Company.

Earnings would have been even stronger, but we're unfortunately marred right as we ended the year by a \$3.5 million dollar pre-tax loss, or \$0.07 per share on an unsecured private banking lending relationship. We lent money originally to the borrower in 2014 based on their substantial financial wherewithal and ability to pay at that time and in a connection with a business development initiative. The initiative has brought meaningful client relationships to WSFS since then, which are still with us today and we expect to be with us into the future; but unfortunately, given a precipitous deterioration in the borrower's personal financial situation, we had to charge-off and provide for the expected loss this quarter. We have no other facilities like this one. And also as detailed in the release, otherwise our total portfolio of unsecured personal loans is very small, very granular, and I will add, is also performing quite well with no non-performing loans and only 40 basis points of delinquency.

In summary, while unexpected and unfortunate, we are very confident this is a unique situation for us. This loss did take the shine off an otherwise very impressive quarter and year.

Highlights for the quarter included: First, core net revenues grew 14 percent over the same quarter last year, including 11 percent increase in core Net Interest Income and a 20 percent increase in core Fee Income, with particular strength in the Wealth Division.

The reported net interest margin for the quarter was a robust 3.90 percent. And fee income is well-diversified and represents a strong 34 percent of total revenue.

Next, core non-interest expenses grew 14 percent to support our growing franchise, resulting in a Core Efficiency Ratio of a healthy 58 percent.

Further, loans grew at an annualized rate of 6 percent in the quarter; and core deposits, excluding the expected seasonal declines in public funds, grew at a 7 percent rate, and represent a robust 87 percent of our total customer funding, which is especially valuable in a rising rate environment.

And finally, even with the private banking loan situation, most asset quality statistics especially non-performers, delinquencies and classified assets were stable to improved and continue at favorable, low levels.

Switching gears, during 2016 we both fully integrated the Alliance organization, and closed and integrated the Penn Liberty organization into our Pennsylvania-market banking franchise, bringing our total number of locations in Pennsylvania to 29 offices. We also signed, closed and integrated the Powdermill Financial and West Capital Management businesses into our Wealth unit. These combinations came with the expected corporate development costs in 2016 of \$8.5 million dollars or \$0.19 a share; but those essential costs are predominantly behind us now. Most importantly, these additions are all strategic and accretive, and will help power our results in 2017 and thereafter.

Speaking of 2017, we recently completed our 2017 Financial Plan, the highlights of which include our expectations of:

- 1) Loans and deposits each growing in the mid to high single digits.
- 2) A net interest margin averaging in the 390's; this assumes only one 25 basis point increase in the Fed Funds rates in 2017; includes the accretion from recent acquisitions; and the benefit of the planned pay off of our higher-costing senior debt in the Third Quarter of 2017.
- 3) Fee income, from strong organic growth and recent acquisitions, increasing around 20 percent.
- 4) Total credit costs (that is, including provision, REO, workout and related costs) of \$12 million to \$14 million dollars in the year. This is up from past guidance due almost exclusively to the strong organic and acquisition growth in loans in the past couple of years. We again caution that, as we saw in 2016, credit costs can be uneven.
- 5) An efficiency ratio of around 60 percent. And,
- 6) An effective tax rate of near 35 percent.

It's important to note, our 2017 plan was put together mostly before the recent election results. And like others, as a result of potential changes, we see positive upside in several of our long-term profitability dynamics, in particular in our net interest income, efficiency and tax rates. Those would likely be partially offset by a decline in mortgage banking fee revenue in the short-term as a result of rising rates. But all of those dynamics are largely dependent on the impact from both the magnitude and the timing of any concrete changes coming from Washington.

Also, as we've done in the past, I remind you that the first quarter of any year tends to be our weakest because of seasonality that negatively affects both revenues and expenses.

In summary, even including the credit knock at the end of the year, 2016 was a record and catalytic year for us. We believe we are well positioned for 2017,

and beyond, to deliver on our Strategic Plan goal of meeting or exceeding a 1.30 percent core and sustainable Return On Assets by the fourth quarter of 2018, and that number is based on pre-election dynamics. On top of that, we look forward to the next couple of years, with a view that, both on things we can influence and on external factors, there appear to be more tailwinds than headwinds on the horizon.

Thank you. And at this time, we're happy to take your questions.

Operator: Ladies and gentlemen, if you have a question at this time, please press the star then the number one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue you may press the pound key. Once again to ask a question at this time, please press star then the number one key on your touchtone telephone.

Our first question comes from the line of Catherine Mealor from KBW. Your line is now open.

Catherine Mealor: Thanks. Good afternoon, everyone.

Mark Turner: Good afternoon, Catherine.

Catherine Mealor: So, Mark, you mentioned the 1.30 ROA for fourth quarter 2018, and I remember -- I believe you had a 1.25 ROA goal for the fourth quarter of this year, which with the higher provision you didn't hit. But, I feel like if you normalize that provision out towards this 3 to 3.5 million guidance that you gave for next year, you're right at about at 1.20, 1.25 ROA level. So, is it fair to say that that's a level that you think is achievable for 2017 and then the lift in 2018 will come from more fee-based acquisitions and the benefit from hire rates.

Mark Turner: Yes. I think that's fair. In fact, I think your calculations are spot on for how we look at core and sustainable through quarter-end and as we completed 2016. We actually had our internal number pegged right around 1.20 and the miss would have been just the decline that was unexpected in mortgage banking

revenue, predominantly that which obviously was because of rates, which will have positive impacts on other of our profitability dynamics, specifically net interest income going forward.

And as we look into 2017, we would expect full year of around 1.25, which usually, as you know, starts lower than that because of first quarter seasonality and ends much stronger than that. And I think if we achieve that, that positions us really, really well for 2018, given that just the growth in the franchise, the improved efficiencies, the improvements -- continued improvement in margin and our goal, which you saw us act on to continue to put resources into growing our fee income.

Catherine Meador: And then, what on the margin? So, your guidance is for it stay in the 3.90s. Can you talk a little bit about how you think about your margin in a rising rate environment and the dynamics that with this prime will play for the next couple of rate hikes?

It feels like you are more -- guiding for a more stable, maybe even kind of lower margin in this first part of the year. And then once you get the benefit from the repayment of the debt in the back half of the year, that's when it will pop and kinda round out at 3.90. Is that a fair assessment on the margin?

Mark Turner: Yes. I think you know us and our dynamics pretty well, Catherine. I think you've got it pretty much spot on, which is through the first -- the next 50 basis points, we're pretty much neutral; that's on a model basis. We actually believe internally that we'd outperform that model just because of the change in our profile and our marketplace to being a brand and a market-leader as well as just the strength of our relationships, over the last cycle. But, once we get past that 50 basis points, the impact starts to be very positive and on a pretty steep slope from there.

Dominic, I don't know if you have anything you would like to add to that?

Dominic Canuso: No, I think that captures it. Just to clarify, we do have one assumption of a 25 basis-point increase, which is in the second half of the year in the 2017

guidance Mark spoke of. So, anything in addition to that would play out with the dynamics defined in the 50 basis-point or 100 basis-point increasing environments.

Catherine Meador: Excellent. And one more thing on credit, is there any -- I know this is probably just one-off. And so, is there any other commentary you can give on the rest of your portfolio? I mean, trends and maybe classifieds that would give us comfort that there isn't another credit issue lurking next year that you know of. I think having two credit issues two quarters in a row, there is a worry that credit costs may come in higher than that \$12 million to \$14 million range. And so, any kind of comfort with what you're seeing in your markets or trends in other metrics I think would be helpful to give us some comfort there. Thanks.

Mark Turner: Yes. So, obviously, we had an item last quarter, about \$4 million dollars from a C&I loan that we had to charge off and provision on in this quarter \$3.5 million dollars. And when you have two in a row, obviously nobody feels about going anything one-off. But, really two completely different situations. One was a legacy large C&I loan from the financial crisis days that we stayed with the borrowers through many years and worked with them on.

And we're deliberate in watching it and it showed up in our problem loan statistics frequently and periodically and delinquencies, and we just got to the point where in our judgment we said even though we worked with them for seven years, eight years, the risk of having a bigger loss in the future was greater than responding to a refinancing opportunity that they had to take us out of the credit. So, that was very long and well-watched and deliberate.

This quarter was a consumer loan situation and like consumer loans situation sometimes happen, they're unexpected because you don't have the same view on to what's happening in somebody's personal situation, if you do with commercial borrower or your meeting with them frequently and getting frequent information. We do feel very comfortable in this situation that we have no other relationships or arrangements like that, and our consumer unsecured portfolio is very, very clean. As I mentioned, no non-performers,

no troubled debt restructurings, and only a \$100,000 dollars on a \$28 million dollar portfolio of delinquencies.

With respect to commercial and even the rest of our portfolio we have, non-performers are very low, delinquencies are very low and actually improved this quarter, and classified assets continue to be very low and stable and actually improved this quarter.

So, there is nothing we can see either in our data or in our marketplace or anecdotes that suggests that there is anything out there that we would be surprised by again. But, so, I offer you that, but as we also offer that credit as we said can be uneven and clearly it showed itself to be that at the end of this year. But, I would say even in a normal distribution of credit, you're going to have occasions where you have back-to-back things like this.

Catherine Mealar: That is fair. Thank you for the answers.

Operator: Thank you. Our next question comes from the line of Joe Gladue from Merion Capital Group. Your line is now open.

Joe Gladue: I'd like to -- I guess, just one other question on the net interest margin and such. It seems that your balance sheet is getting a little bit more liability sensitive in last couple of quarters. Is that tied in with the third quarter debt maturity and the senior debt -- senior notes that are going to be used to repay them?

Dominic Canuso: So, thanks for the question; this is Dominic. That's exactly the case with the expected call of the senior debt in the 2017 time period. So in the next 12 months, that re-pricing has driven the sensitivity down somewhat. But we continue to be asset sensitive and well positioned for the expected rising rate environment going forward.

Joe Gladue: Ok, I just wanted to clarify that. And, I guess on your stock repurchase program, I guess just wondering how you are feeling about going on with that

now with the I guess increased valuations we've gotten over the last couple of months?

Mark Turner: Yes. So, I just want to reiterate what our philosophy and the practice has been and continues to be. We pay very low, as a percentage of earnings, cash dividend; so it's in the order of 10 percent to 15 percent by policy and we're right in that range now. Beyond that, we do buybacks for the flexibility that buybacks offer us over having a fixed cash dividend. And we really break that into two pieces. There is a portion of buybacks up to about 15 percent of earnings that we will do, almost regardless of price, it really just is a substitute for having a very, very low dividend.

So, look for us in most years, absent something unusual happening, to have at a minimum a cash dividend and a small buyback program that would approach 25 percent of earnings. Anything over 25 percent is subject to earned buybacks and is subject to a model that really calculates the expected internal rate of return on those buybacks where we look at the cash out, if you will, or the outflow as tangible book value dilution for buying shares and then compare that against the inflows of the expected EPS accretion for buying back shares. And we look for a minimum rate of return on that outflow and inflow dynamic of 18 percent IRR.

Joe Gladue: Ok.

Mark Turner: So, having given you that context, we continue to buy back shares, as you saw modestly in the last quarter, and even continue to buy them back today as a substitute for a very low cash dividend.

Joe Gladue: Ok. Thank you.

Operator: Thank you. Our next question comes from the line of Austin Nicholas from Stephens. Your line is now open.

Austin Nicholas: Maybe just a quick question on the Cash Connect business. Just looking out over the next year to two years, it's my understanding that there is some rate

floors in that business that maybe aren't blown past through until maybe the end of this year. And then, maybe, can you talk about how the dynamics between maybe, call it asset sensitivity in that business and then, what you're seeing just on a kind of organic growth within that business?

Dominic Canuso: Thank you, Austin, this is Dominic. Just to parse out your questions, first is the impact from some of the floors. And you are correct, because some of our customers' price is set to the WSFS prime, there is about a 25 basis-point differential between Wall Street and WSFS prime that we expect in the near-term to create some compression in the margins for that business. Long-term, we do see consolidation continuing to occur. And what that's doing is really reducing the amount of players in the space. That can be a risk and opportunity as we may lose some customers over time, but the customers that we service are also expected to grow in volume and size.

As part of that business and consolidation, rates are expected to come down somewhat, but our strategy continues to be focused on a more diversified revenue stream beyond just bailment across what we call TCM or full cash management services across logistics, reconciliation and forecasting tools. In addition, that business continues to innovate, more recently focused on the smart safe business where we expect to see really strong growth in the product expansion and penetration into existing customers and future customers that will continue to support low double-digit growth in that fee business.

Austin Nicholas: Ok. Thanks Dominic. And then, maybe just on the corporate development costs for next year, should we see some remaining corporate development costs from the acquisitions in 2016?

Rodger Levenson: Hey, Austin; it's Rodger Levenson. The significant amount of those costs have been incurred this year. There's a small trailing tail to those costs from the previous transactions of anywhere between \$0.01 and \$0.02 per share throughout 2017. Other costs will come obviously through normal corporate development activities and would be deal-specific.

Austin Nicholas: All right, thank you guys. I appreciate the time guys, that's it for me.

MarkTurner: Thank you, Austin.

Operator: Thank you. And as a reminder ladies and gentlemen, if you would like to ask a question at this time, please press the star then the number one key on your touchtone telephone.

Our next question comes from the line of Frank Schiraldi from Sandler O'Neill. Your line is now open.

Frank Schiraldi: A couple questions on -- couple follow-ups really. I just want to make sure I heard you right, Mark, on the interest rate positioning. So, pretty neutral through the first 50 basis points; is that -- that's inclusive of the 25 we got in December?

Mark Turner: Yes, that's inclusive of the 25 we got in December. Next 50 basis points, pretty neutral on a model basis, again with the expectation I think we have a substantial opportunity to outperform the model.

Frank Schiraldi: OK. And then, I just wondered if you could share what average beta you guys use for the deposit base? And I'm assuming so far you've basically been able to hold pricing here.

Mark Turner: Yes. So, I think it's probably very consistent with what you're seeing from others. And again, this is the model beta and a lot of these betas are based on last time rates rose which were 10 years ago. And again, I'd just say that we're a much, much different organization than we were 10 years ago and our brand and our market competitiveness. But it's on average 50 basis points of beta and that's spread out any where from 20 basis points on the core, checking stuff up to 80 basis points on the savings and money market stuff.

Frank Schiraldi: I am sorry. So, 80 basis points of a 100?

Mark Turner: Yes. So, 50 on average. But, that 50 on average could be -- includes assumptions about 20 basis points on checking accounts, and up to 80 basis

points on products that are less core, like savings and money market; on an average 50 basis points. And to your last question, yes, we really haven't seen any need at this point to raise rates or any pressure coming from the customer base or competition to raise interest rates. And our expectation is we probably wouldn't see that through the next 25 to 50 basis points.

Frank Schiraldi: And then, just on M&A, I wondered what your appetite was go forward for -- or if you see anything on the horizon in terms of additional wealth management deals that might move the needle here?

Rodger Levenson: Hey, Frank; it's Rodger. So, I would say generally with the guidance that we've given before, we're very focused on optimizing the recent investments. And clearly in the wealth space with the acquisitions of Powdermill and West Capital Management in the back half of the year, we're very focused on optimizing and integrating those. We really feel that that significantly enhanced our platform.

That being said, we continue to look for other what I will call kind of tuck in acquisitions to that business, again along the same lines that we've talked about in terms of relatively small minimal integration risk and something that we can pull in quickly and move on from. So, we keep our eyes open for those, but I would put it in the context of we are focused right now on integrating those most recent two.

Frank Schiraldi: Gotcha. Thank you.

Operator: Thank you. At this time, I'm not showing any further questions. I would like to turn the call back over to Mark Turner for closing remarks.

Mark Turner: All right. Thank you, Charlotte, I appreciate that. And thank you everybody on the call again for your time and attention. Rodger, Dominic and I will be on the road at investor conferences several times, I think actually up to five times over the next couple of months. It seems to be a busy season. And we look forward to seeing many of you then. Have a great weekend.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Everyone, have great day.

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