WSFS FINANCIAL CORPORATION

Moderator: Steve Fowle
April 27, 2012
1:00 p.m. ET

Operator: Welcome to the WSFS 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.

As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Mr. Steve Fowle, Chief Financial Officer. You may begin.

Steve Fowle: Thank you, Mimi, and thanks to all of you for taking time to participate on this call. With me at WSFS are Mark Turner, President and CEO; Rodger Levenson, Executive Vice President and Director of Commercial Banking; Paul Geraghty, Executive Vice President and Chief Wealth Officer; and myself. Before Mark begins with his opening remarks, I would like to read our safe harbor statement.

This call will contain estimates, predictions, opinions, projections, and other statements that may be interpreted as forward-looking statements, as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to our financial goals, Management's plans and objectives for future operations, financial and business trends, business prospects, and our outlook or expectations for earnings revenues, expenses, capital levels, liquidity levels, asset quality, or other future financial or business performance strategies or expectations.

Such forward-looking statements are based on various assumptions, some of which may be beyond the Company's control, and are subject to risks and uncertainties which change over time, and other factors which could cause actual results to differ materially from those currently anticipated.

Such risks and uncertainties include, but are not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, the volatility of the financial and securities markets, including changes with respect to the market value of our financial assets, changes in market interest rates, changes in government regulation affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules being issued in accordance with this statute, and potential expenses associated therewith, and the costs associated with resolving any problem loans, and other risks and uncertainties discussed in documents filed by WSFS Financial Corporation with the Securities and Exchange Commission from time to time.

Forward statements speak only as of the date they are made, and the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by, or on behalf of, the Company. With that read, I will turn the call over to Mark Turner for his opening comments.

Mark Turner: Thanks, Steve, and thanks again, everyone, for your time and attention. We were pleased to report earnings of $0.74 per share in the quarter, adjusting for items like securities gains and small non-routine costs. Our more normalized, or core earnings were $0.61 per share. Calculating core earnings similarly in prior periods, this was a 53 percent improvement over the same quarter last year, and a 69 percent improvement annualized over the linked quarter.

Generally speaking, the bottom line improvement has been driven by both growth in revenues, and or flat-to-decreased non-provision expenses, both expected outcomes of the shift in our strategic phase from the significant investment in the last few years during a period of heavy local market disruption, to the current strategic phase of optimizing our investments. We are growing at above peer rates, and that growth is coming from maturing recent franchise investments, with fewer new investments coming online to impact expenses.

As a result, operating leverage and efficiency are kicking in, leading to a nice improvement in bottom-line results. In addition, statistical and anecdotal data indicates the local economy is in slow recovery, and we are seeing a similar trend line in the decline in total credit costs, which is also helping performance.

However, we are still vigilant. The economy and credit quality are still not where they should be, so we expect a bumpy road, and can still be occasional surprises. With that big picture background, let me summarize some of the quarter's highlights, and add some color on the business in the future, as best as we can tell at this time. Revenues were up 12 percent from this time last year, driven by both increased net interest income on volume, and growth in fee income, which represents about one-third of total revenues.

Even excluding securities gains in each period, revenues were up over 8 percent, reflecting fundamental growth in all of our businesses, including traditional banking, wealth management, and Cash Connect's ATM Services. Revenues were relatively flat over the linked quarter, reflecting some margin percentage pressure, as the net interest margin was down 4 basis points, and some expected first quarter seasonality in our fee-based businesses, especially in Cash Connect and trust services.

We expect very modest margin pressure to continue, and some of it we are doing to ourselves. While over the last year, the loan-to-deposit spread has been stable to improving, to manage risk, we have been selling higher-yielding securities, and therefore quicker pre-paying securities before they pay off at par. Hence, the outside securities gains we have taken over the past several quarters, which, while not core earnings per se, are still cash earnings, and capital in the bank. Deposits were up 6 percent annualized over the fourth quarter, and up 13 percent when factoring out a temporary trust deposit we had over year end. Moreover, core deposits grew 99% linked quarter, and grew 20 percent when factoring out the same temporary account.

Our goals for the year are still mid-to-high single-digit deposit growth, since we believe, as the economy improves, some money will move out of savings to spending and risk assets. Net loans were up 3 percent annualized in the quarter, but loans to operating businesses, or C&I loans, which has been our focus, were up 7 percent annualized, and we also saw growth in own occupied construction loans as well, a healthy sign.

Offsetting this growth, we continued to see runoff in our first and second mortgage portfolios from pay-downs and refinancing, from which we are realizing some mortgage banking revenues, and also using this dynamic to improve the overall mix of our earning assets. We expect these consumer portfolios will stabilize in the second half of the year, as we are implementing more aggressive consumer loan marketing for us to meet our full year total loan goal of mid-to-high single-digit growth.

Non-performing assets were down a couple percent in the quarter, and this was the fourth consecutive quarter of improvement. As indicated in the past, absent a larger bulk sale strategy, the long-term trend in non-performers will likely follow the path of the overall economy, but can include quarter-to-quarter volatility, as individual loans can still deteriorate or improve at this point in the cycle.

We have, and continue to test the market for larger bulk sale opportunities, and the market appears to be getting more liquid, with better bid-ask spreads on distressed assets. Delinquencies were modestly higher, primarily due to one C&I relationship, whose business is highly seasonal and was impacted by the combined lack of snow this winter, and the unusually warm early spring.

Total problem assets were down slightly by about $10 million, but within problem loans, classified loans increased while criticized loans decreased, driven primarily by the downgrade of two larger C&I credits from criticized to classified status.

One of those credits was the delinquency I just mentioned, and we provided for the net migration in the quarter, and are following these relationships closely. Total credit costs, which include provision, loan workout, and OREO costs at $7.6 million in the quarter, improved substantially from prior quarters' amounts of $9.7 million and $8.4 million.

This quarter was the lowest in total credit costs we've seen since the third quarter of 2008, despite a small bulk sale of OREO. This was driven by a moderating provision, and a more significant improvement in loan workout in OREO costs, which can fluctuate from quarter to quarter, depending on disposition activity. The $7.6 million total credit costs for the quarter is in line with full year expectations of a little more than $30 million, again, absent a change in disposition strategy.

The ALLL coverage increased to 1.95 percent of loans in the quarter, as a provision of $6.7 million more than covered charge-offs of $5.5 million. Charge-offs also improved substantially from prior quarters, including a 22 percent decline from the fourth quarter, and a 46 percent decline from this quarter last year. Overall, it was a solid quarter.

The local economy appears to be improving slowly, and there is still local banking market disruption opportunity. We have a great local brand, world-class customer engagement, and award-winning Associates to execute on the market opportunity. We continue to be focused on optimizing our prior investments to grow, and improving asset quality, operating leverage, and efficiency to drive bottom-line performance. Thank you, and we will take questions at this time.

Operator: At this time we will open up the lines for the Q&A portion of the call. If you would like to pose a question at this time please press star and the number one on your telephone keypad now.

Our first question is from David Peppard of Janney Capital Markets.

David Peppard: Good afternoon, gentlemen.

Mark Turner: Good afternoon, Dave.

David Peppard: I was just wondering if maybe you could talk a little bit more about the market disruption you were just speaking to in your prepared comments?

Mark Turner: Yes, it is the continuing impact of mergers and acquisition activity over the last couple of years. In Southeastern Pennsylvania, where we have established a stronger presence, the acquisition of First National of Chester County by Tower-Greystone, and ultimately by Susquehanna, and the acquisition of Harleysville by First Niagara.

They continue to bring us opportunity, and in the local market, more significantly, obviously Wilmington Trust being acquired by M&T. Wilmington Trust had about a third market share, and then the Wells Fargo acquisition of Wachovia. Even though a lot of those headline dates were some time ago, we have found that it's when the customers start to have the experiences, whether it is loan renewals or problem resolutions, that they become disenfranchised with different processes or procedures, or different people that they have to deal with.

And as a good local name, Dave, the only local name left of size in Delaware that operates on a community business model from one end of the state to the other, we are a logical local choice, and we have a great brand for service. So we are still continuing to see activity.

David Peppard: That sounds good, thank you. Could we quickly get an update on TARP repayment plans?

Mark Turner: Yes. It's our intent and strong desire to do so by the coupon step up date, which for us is January, 2014, if not well before in a shareholder friendly way. We believe we have the wherewithal to get it done. This would obviously require money leaving the Bank and the Holding Company. We have had discussions with our new regulators, the OCC, and the Federal Reserve Board on this.

As you might imagine, with two new regulators, they might want to take some time to get to know us, especially in the current environment. And all I would say is, at this point, it's an iterative, three-way process, and discussions are ongoing and constructive.

David Peppard: OK, thank you guys.

Mark Turner: Thank you.

Operator: Thank you.

Again as a reminder to pose a question at this time press star and one on your keypad now.

Our next question is from the line of Michael Sarcone of Sandler O'Neill.

Michael Sarcone: Good afternoon, guys.

Mark Turner: Good afternoon, Michael. Sorry, we are getting some feedback in the background here.

Michael Sarcone: Sorry about that.

Mark Turner: I'm not sure where it is coming from. Shoot.

Michael Sarcone: Just had one question. Can you give us a little more color on the seasonal decline in fee incomes?

Mark Turner: We have a couple businesses that show – I wouldn't say significant, but a fair degree of seasonality. The Cash Connect businesses, where we provide cash to non-bank owners of ATMs in, literally, 12,000 ATMs throughout the country.

And they tend to be – it depends on people's uses of cash, which tend to spike up in the fourth quarter around holiday time, and in the summer around vacation time, and slow down in the first quarter and third quarter.

And then the trust services business tends to have peaks in the fourth quarter and the second quarter. In the fourth quarter, just as people try and close trust activity for the year ends, and in the second quarter, around tax preparation time.

Michael Sarcone: OK, thanks guys.

Mark Turner: You are welcome.

Operator: Thank you. I'm showing no further questions in the queue at this time. I will hand the call back to Management for closing remarks.

Mark Turner: Thank you. I appreciate everybody's time and attention again. Steve, Rodger, Paul, and Rick, who is not here today, are open to meet with companies, and we expect to be on the road in the spring and summer, getting around talking to people. As always, feel free to give us a call. Have a great weekend.

Operator: Thank you. Ladies and gentlemen, this concludes the conference for today. You may now disconnect, and have a wonderful day.

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