WSFS FINANCIAL CORPORATION

Moderator: Steve Fowle
July 29, 2011
1:00 p.m. ET

Operator: Good day, ladies and gentlemen, and welcome to WSFS Financial Corporation's second quarter earnings conference call. At this time, all lines are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time.

As a reminder, this conference is being recorded. I would now like to introduce Mr. Steve Fowle, Chief Financial Officer. You may begin.

Steve Fowle: Thank you, Mary, and thank all of you for taking the time to participate on this call.

Participating with me on this call is Mark Turner, President and Chief Executive Officer at WSFS; Rodger Levenson, head of Commercial Lending; and Rick Wright head of Retail and Marketing for the Organization. Before Mark begins 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 and 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. Changes resulting from our participation in the CPP including additional conditions that may be imposed in the future on participating companies, 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-looking statements speak only as of the date they're made, and the Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company.

All that said, I will turn the call over to Mark Turner for his opening comments.

Mark Turner: Thanks, Steve, and thank you all for your time and attention.

We are pleased to report second quarter earnings at $0.55 per share. This exceeded results for the last quarter of $0.40 per share, and also beat results for this quarter last year of $0.36 per share by 53 percent. There were a few non-routine items identified in our written release that netted us a positive $0.14 per share. Quarter results were good and were driven by strong growth in the fundamental areas, including C & I loans, core deposits, margin and fee income, and also in the control of expenses taken in the context of our growing franchise.

These all overcame a somewhat higher provision expense, which covered charge-offs, resulting in no earnings boost from so-called reserve releases. The higher provision was driven primarily by declining collateral values on a few problem loans, mostly residential construction loans, and a higher level of retail loan charge-offs; both due to the protracted sluggish economy.

As a reminder, we said in the past that total credit costs, which include provision, REO write-downs, letter of credit reserves, et cetera, would be uneven at this point in the cycle, especially on a quarterly basis; but that our best estimate is that they would be $35 million, plus or minus a couple million, for the full-year 2011. Total credit costs for the first 6 months totaled $18.6 million, in line with that full-year expectation. This fact, and our latest analysis of our loan book and the local economy, affirm that earlier full-year estimate, absent a meaningful deterioration in the economy from here.

We would note that, like recent national statistics, the local economy has shown a more sluggish recovery than expected even 6 or 9 months ago. Delaware, our primary market, has an unemployment rate of 8 percent, and that is meaningfully better than the national average of 9.2 percent, but is still historically high and is improving stubbornly. Housing activity and housing price changes look a lot like national averages, which is to say they are down from last year, and down from where we and others expected them to be at this point in the recovery.

Despite all that, we were pleased to show improvements in most all major asset quality statistics, both leading and lagging indicators. These include declines in total problem loans, delinquencies, nonperforming assets, and charge-offs. These improvements are the result of, although sluggish, a still slightly improving local economy, a well underwritten loan book, and diligent loan-by-loan credit management starting early in the cycle. We note again that our biggest pain point over the cycle, residential construction loans, are now only 2 percent of total loans, and have been closely and continually examined over the last 3 years now.

Further, based on our latest analysis, and consistent with previous guidance, we expect nonperforming assets in the third quarter to stay about the same level they're at now, plus or minus a little, but will decline modestly by the end of the year. We frequently evaluate every problem loan and make the decision in each case we believe is best for realizing optimal value. In some cases this involves aggressive disposition; and others, working with the borrower when they exhibit both cooperation, and operating and financial capacity.

We believe our asset quality overall and the individual statistics can best be characterized as in a very manageable range for us and on an improving trend. But again, as a consequence of the economy and individual situations, they may exhibit some lumpiness in the overall downward trend. In summary, all caveats included, we expect credit quality and credit costs to be modestly better in the second half of the year than they were in the first half.

Switching gears – most notably in the quarter was a double-digit growth in commercial and industrial loans; mostly from market share gains, given the disruption we've mentioned in the past. We expect this level of growth to continue through year-end as our C & I pipeline is strong. However, this growth is muted by our continued intentional runoff in construction and residential mortgage loans, and more recently from aggressive pricing from larger competitors on high-quality existing and prospective commercial real estate loans. We still expect commercial and industrial loans to grow at a double-digit rate this year, but overall loan growth we expect will be closer to the mid- to high-single-digit range.

Also noteworthy, deposit growth, especially core deposits, was again strong; although we do expect continued growth to be uneven as a result of the higher level of municipal, school district, commercial, and trust related deposits that we now have, which can naturally have big inflows and outflows in any quarter.

As a result of the C & I loan growth, core deposit growth and investment portfolio management, where we slightly lengthened our duration while still maintaining asset sensitivity; margin growth was nicely positive on both a dollar and a percentage basis. In the near term we expect the margin percentage to have a couple more basis points room to grow, as balance sheet management strategies and funding rate gains are diminishing.

And despite the industry's challenges to make up lost revenues from regulatory changes, fee income growth at WSFS was also strong, even without the positive non-routine items we mentioned in the release. Deposit fee income and ATM income rebounded, and fiduciary revenues were strong, especially from Christiana Trust, which has been fully and successfully integrated at this point.

As a couple of data points, fiduciary revenues of the integrated Christiana Trust for the first 6 months of 2011 have exceeded our expectations when we did the deal, and are up 18 percent over pro forma integrated results for this same time last year.

As mentioned, expenses were also nicely controlled as a result of our completed core efficiency program, acquisition synergies, and FDIC expense reductions. This is especially noteworthy given the significant organic and acquisition franchise growth we've undertaken in the last year; including 5 new branches, 4 relocated branches, 11 new commercial relationship managers, and related credit administration and support staff, and a strategic acquisition of Christiana Bank and Trust.

Finally, since our last earnings call we've become by far the largest, oldest full-service bank and trust company headquartered in our primary market of Delaware. That alone is meaningful, but along with being named a perennial top workplace, and having earned a world-class designation for service from the Gallup organization, these all combine to create a significant market advantage for us. And as larger or smaller competitors are distracted, we continue to aggressively and prudently attract talent, fill a service void, and take good market share as we pursue this once every 100 year opportunity for us.

Thank you again, and at this point, we will take your questions.

Operator: Thank you, ladies and gentlemen.

If you would like to ask a question at this time please press star and then the number one on your keypad at this time. We will pause to compile the Q&A roster.

And your first question comes from the line of Michael Sarcone with Sandler O'Neill.

Michael Sarcone: First question – you had said the commercial loan pipeline was still pretty strong. Can you just give us more color on the pipeline?

Mark Turner: Sure. I'll have Rodger tackle that question.

Rodger Levenson: Michael, I would tell you that our pipeline has been pretty consistent. We've been in a range of a 90-day weighted average forward pipeline, anywhere from about $100 million to $120 million throughout the course of the year. Obviously some runoff, and some other things that have been going on with our portfolio in terms of seasonal pay-downs, have been impacting that. But our fundings have been tracking fairly close to those numbers.

Michael Sarcone: And then, on the commercial loan pricing, you said you've seen some competition. Can you elaborate on that?

Rodger Levenson: Yes, as Mark said, it has been primarily for what I would call high quality, stabilized commercial real estate properties. We've seen rates for some customers that are going either to the banks or back into the public markets, below 4 percent, for 5 and 7-year money.

Michael Sarcone: OK. And then just an unrelated question – can you give us any updates on your thoughts on TARP and the SBLF program?

Mark Turner: Yes. Happy to, Michael.

At this point, plan A for us, and we think the best option for us for repayment of TARP, is the Small Business Lending Fund, for reasons we've stated in the past, and I think others have. Reasons are: because of our opportunity to grow business loans, we can reduce our coupon, because, it gets rid of any unwanted restrictions, and also provides us additional capital to support all of the opportunity we have in the local marketplace. We, like a lot of other institutions, have applied. I think there have been 870 applications. So far as I know, the Treasury has only announced 23 fundings, so there's a lot more to be done in the next 2 months, because I believe the statutory requirement is that all of the funds be distributed by the end of September. So we are waiting to hear, like others; and I believe any announcements will be done, frankly, by the Treasury. So we look forward to hearing. We don't think there's any reason why we wouldn't be approved, but obviously that's out of our hands at this point.

If for some reason that did not come to pass, we've done a lot of internal analysis based on our earnings trends, our asset quality trends, our capital and stress tests we've done on capital and across the board. We believe we have the wherewithal to repay TARP out of existing capital and future earnings. Obviously that's our internal analysis and we have not had those discussions with regulators, because plan A still is Small Business Lending Fund.

Michael Sarcone: OK. And is there like a working dialogue with the Treasury on the active application, or is it more you submit it and wait to hear back?

Mark Turner: They give you a phone number you can call and an e-mail you can send e-mails to, but there really is very little dialogue that you can get. It's kind of don't call us, we'll call you.

Michael Sarcone: Thank you.

Our next question comes from the line of Matthew Clark with KBW.

Matthew Clark: In the loan yields, they ticked up, and I'm just curious whether or not there was any lumpiness in the way of fees in there, or whether or not you are actually able to book new loans at higher rates?

Mark Turner: Rodger?

Steve Fowle: I can address that, Mark. This is Steve.

There's a little of both. Some of it had to do with simple accounting entries. Some of it had to do with the fact that we're getting stronger contractual yields on loans.

Matthew Clark: OK, great. And in the pipeline – I would say the new business you're seeing from all the disruption around you, there's some mention in the release, at least on the deposit side, that there could be – you're winning larger deals and getting larger balances and deposits as well. I'm just curious as to if you could remind us what your in-house limit is, whether or not you're – and maybe how large some of these wins are for you, both on the loan and deposit side?

Rodger Levenson: Well, I'll start – this is Rodger – I'll start on the loan side. We have an in-house house limit of $25 million, and we have individual project and borrower limits below that. So usually the relationships that aggregate near the house limit are relationships that have several projects or separate different entities that have distinct cash flows but that we aggregate because of common ownership. And there's just a handful of relationships that are over that amount today. Really, the business that we're doing is our traditional bread and butter business, and that's been true for the first half of the year. So I would say anywhere from a couple million dollars of credit up to $15 million or so of credit, is where we're seeing the most activity.

Mark Turner: And on the deposit side, you know, as a consequence of being Delaware's bank now, and our expansion into southeastern Pennsylvania and some of the talent we've picked up in the cash management area we have – and also the Christiana Bank and Trust acquisition – we've picked up larger individual deposits from municipalities, school districts, institutions, commercial depositors. It can, be $10 million, $20 million, up to $30 million. We detail that now in our Q's about the concentrations that we have, and just want to point out to people that we now do have those larger businesses and institutions deposit with us that show some seasonality. The school districts, for example, obviously have real estate taxes coming in at a certain point, and they use it over the course of the year. Those would be the type of things you should be aware of.

Steve Fowle: In terms of limitations on those, we don't have any set limitations, but we are very focused on funding diversification. We have some soft limit on areas like public funding amounts that we'll take.

Operator: Our next question comes from the line of Andy Stapp with B. Riley Company

Andy Stapp: I forget the exact dollar amount you previously talked about with regards to the small business lending fund. I think it's around $75 million. Is that what you're still looking to do?

Mark Turner: Correct, that was the application amount.

Andy Stapp: And just curious why you decided to extend the duration of your securities portfolio?

Mark Turner: I'll start, and then have Steve augment to the extent he feels necessary. As a consequence of things we did and just the organic business we were doing, we got very asset-sensitive, above our comfort limits. That is, we had extended a couple years ago some liabilities out on the curve, 4 and 5 years. We had done some – 5-year promotional CD promotions – and then just as a natural consequence of our business, a lot of the loans we're bringing on in the commercial end, and their floating rate.

So they're repricing, obviously, currently. So we had gotten very asset-sensitive, and found we were above our comfort level, especially in light of all of the talk recently about rates being low for an extended period of time; and we were leaving some money on the table, and also exposing ourselves there. We took the opportunity to shorten some liabilities, and in our investment portfolios, slightly lengthen some of our investments to get us still to be asset-sensitive, but not as asset-sensitive. And also pick up some yield at the same time.

Steve Fowle: Mark mentioned that we had hit our comfort level. Well, that included hitting a Board-prescribed range that we try to maintain our asset sensitivity within.

Andy Stapp: OK. And would the offices that you – first of all, how are your new offices faring? And would it be logical to assume that deposit growth should pick up in the back end of the year? Maybe you can provide some color on deposit growth?

Rick Wright: This is Rick Wright.

All of those branches we have, which amounts to 5 of them, counting the 1 we moved, are doing well. We still have a plan to do at least 1, if not as many as 3, toward the end of the year in the Delaware market; and I would suspect that we're going to continue to have some pretty good organic growth from those. Just one other item to point out – while the deposit growth had some volatility in it because of some of these larger kinds of accounts that have been mentioned, we continue to have very strong household growth. We had record household growth in the first quarter, and the second quarter was even stronger. So I think these new branches will accelerate that.

Andy Stapp: OK. Thank you. I'll hop back into the queue.

Operator: As a reminder, to ask a question press star, one at this time.

Your next question comes from the line of Steve Moss from Janney Montgomery Scott.

Steve Moss: Just want to get a feel for your appetite of hiring additional lenders. I know you're pretty aggressive toward the fourth quarter and the beginning of this year. Are you going to continue hiring lenders later this year as you grow loan balances, and what's your thinking there?

Mark Turner: I'll let Rodger tackle that, Rodger?

Rodger Levenson: Hey, Steve, it's Rodger Levenson.

As we've talked about in the past, we have a plan to add additional talent, and we have the names of the folks in our markets that we're aware of, that would be additive to our efforts. We've brought over a number of those folks already. There still is a handful of people both in Delaware and southeastern PA that we would very much like to see join our team. We continue to have conversations with them; timing, and when they may or may not come is hard to predict. But I would say, there's a small group of folks that, yes, absolutely, we would look to hire if they became available.

Steve Moss: Thank you.

Operator: Once again that is star and then one to ask a question at this time.

And the next question comes from the line of Andy Stapp with B. Riley Company.

Andy Stapp: Are you still looking for an effective tax rate this year, of 36 percent?

Steve Fowle: Yes, I expect that's still an appropriate tax rate to use, Andy.

Mark Turner: Andy, just to augment that, that's for the rest of the year. Obviously that would be lowered a little bit by the non-taxable BOLI income we got in the second quarter.

Operator: Thank you. If there are no further questions, I would now like to turn the conference back over to the speakers.

Mark Turner: Thank you. We appreciate again everybody's time and attention, and your confidence in us.

We will be on the road next week in New York at an investor conference where Steve, Rodger and I will make a presentation and be available for one-on-one meetings. At that conference we'll more broadly discuss the Bank's progress and our strategies and results for the second quarter. That will be Webcast, and the information materials for that will be available on our Web site.

Thank you, and have a great weekend.

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