WSFS FINANCIAL CORPORATION

Moderator: Steve Fowle
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1:00 p.m. ET

Operator: Good day, ladies and gentlemen and welcome to the WSFS Financial Corporation third quarter 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 be given at that time. If anyone should require assistance during today's conference, please press star and then zero on your touchtone telephone. As a reminder, today's conference call is being recorded.

I would now like to introduce the speakers, Mark Turner, President and CEO; Steve Fowle, Chief Financial Officer; Rodger Levenson, Director of Commercial Banking; and Rick Wright, Director of Marketing and Retail Banking. I would like to introduce your host for today's conference, Mr. Steve Fowle, Chief Financial Officer. Sir, you may begin.

Steve Fowle: Thank you, Devin, and thanks to all of you for taking the time to participate in this call. Before Mark begins his comments, I would like to read our Safe Harbor statement.

This report contains 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 for 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 that 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 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 net income of $6.8 million, or $0.70 of earnings per share. Excluding notable items mentioned in the release, which were a net positive in each of the three quarters presented, results in the third quarter were $0.59 of earnings per share, a marked improvement over similarly adjusted results of $0.41 per share last quarter, and $0.40 per share in this same quarter last year.

Driving the improvement in our results during the quarter and highlights for the quarter were both: strong revenue growth, which was up 16 percent annualized over the second quarter of 2011 and 10 percent over the third quarter of 2010; and many stable to modestly improved credit metrics leading to improved total credit costs. Our revenue growth was driven by both: improvements in net interest margin, which increased 2 basis points and $1 million or 13 percent annualized; and improvements in fee income, which increased $900,000 or 22 percent annualized over the second quarter of 2011. Our ability to improve margin in a difficult environment was the result of: strong C&I loan growth at a 20 percent annualized improvement over last quarter coming primarily from market share gains; fundamental deposit growth, despite the expected outflow on two accounts; and prudent management of funding costs.

While reducing funding costs will be increasingly challenging, given our trends, we expect that we will be able to hold our net interest margin percentage at about the same level for the balance of the year, plus or minus a few basis points. Fee income was also up 20 percent annualized over last quarter, after excluding notable items like securities gains in each quarter and was driven by franchise growth in many areas of the bank. While revenue growth was certainly a highlight, the continued improvement in many credit metrics and credit costs also contributed to bottom line results. Nonaccrual loans declined over $10 million, or 12 percent. Total nonperforming assets declined $4 million, or 4 percent, and total delinquencies improved slightly. More qualitatively, loans disposed of during the quarter were generally adequately reserved for, and loan migration was in loans that were also generally well secured.

As a result our provision declined $2 million from last quarter to $6.6 million this quarter. And total credit costs declined a similar amount to $8.4 million in the third quarter of 2011. Total credit costs, which include provision, loan workout and OREO expenses, through the first three quarters of 2011 were $27 million. That result and our updated forecast has us tracking to our previous guidance of $35 million, plus or minus a couple million for the full year.

Our charge-offs for the first three quarters were $28.2 million, and, for the full year, maybe a bit above our earlier guidance of $35 million. As we indicated at the outset of the year and since for 2011, we expect charge-offs to match or come close to total credit costs. As we have also said, these numbers by their nature can be lumpy in any quarter. We are on that path.

Our prior forecast indicated that nonperforming assets would be around flat at the end of the third quarter from the second quarter and then have a modest decline in the fourth quarter. We were able to accelerate a number of forecasted fourth quarter dispositions into the third quarter, which contributed to the 4 percent decline in nonperforming assets. Incorporating this information into the upcoming forecasts would indicate nonperforming assets in the fourth quarter would remain close to current levels; and, therefore, consistent with our earlier full year guidance. Similar to credit costs, the NPA trend line can be impacted in any individual quarter by the timing of inflows and dispositions, and this forecast also does not include any significant changes in our disposition strategy or the general economy.

In summary, overall credit costs remain in a stable and very manageable range for us, and the year in terms of credit costs, charge-offs and NPA's is playing out pretty much as we had anticipated in prior guidance. As we drive towards what we hope will be the best year for us in the last few years of a difficult downturn, our business strategy, our investments in our franchise, and our current focus on taking market share are paying off.

Our success is demonstrated in: our earnings growth; our continued robust C&I loan growth; our moving up to a solid third place in traditional bank deposit market share in Delaware; our improving asset and funding mix, allowing us to expand our net interest margin and net interest income in a difficult rate environment; and our robust growth in fee income, now fully 34 percent of revenue, much of that driven by our enhanced trust and wealth management services including our successful integration of Christiana Trust. It is still a difficult environment out there. However, WSFS Associates look forward to meeting the challenges and serving our customers, communities, and our owners.

Thank you, and we will take questions at this time.

Operator: Thank you. Ladies and gentlemen, if you have a question or a comment, please press star and then one on your touchtone telephone. If your question has been answered and you wish to be removed from the queue, please press the pound key. Once again, if you have a question or a comment, please press star and then one on your touchtone telephone. Our first question comes from Michael Sarcone of Sandler O'Neill.

Michael Sarcone: Hi, good afternoon guys. You said that the NPAs had decreased this quarter because you fast tracked some of the dispositions. Can we take that to mean that you don't foresee future reserve releases, given that you expect NPAs to hold steady this quarter?

Rodger Levenson: Mike, it is Rodger Levenson. As Mark said, we think the NPAs will stay about the same levels. It is hard to predict exactly how the charge-off provision dynamic will work out quarter to quarter. As we said, I think the overall year is playing out pretty much the way we said, so I think that would indicate we are on a similar path that we have been reporting the last few quarters.

It may be lumpy which is kind of what happened this quarter. We had one significant charge-off that we had primarily reserved for that drove the numbers. That happened literally at the end of the quarter, but it is hard to predict exactly how that is going to play out in the future. I wouldn't expect any significant change from the pattern that we have had over the course of this year.

Michael Sarcone: OK. And since I have you, on the commercial pipeline can you tell us what that looks like?

Rodger Levenson: Yes, it continues to be strong. Our 90-day weighted average has held consistent throughout the year. I think the fourth quarter will look very similar to the prior quarters; strong C&I growth and a leveling off of construction and commercial real estate loans. Sort of staying around flat.

Michael Sarcone: OK. Thanks. And this question is probably for Mark. Can you update us on your thoughts on repayment of TARP?

Mark Turner: Yes, sure, Michael, we believe based on our risk profile capital, improving our earnings trends, and the internal stress tests that we have done that we have enough capital to pay TARP without a capital raise, and that is certainly our desire. To any one that is new to us, WSFS raised $75 million in common capital after our takedown of $53 million in CPP. But CPP is still inexpensive regulatory capital; and given the continued uncertainty around the path of the economy, the likely most prudent path for us is to repay in traunches as we generate more capital internally and get a better feel for the direction of the economy. We expect to begin discussions of that with the OCC in the near term.

Michael Sarcone: OK. Great. Thank you.

Operator: Thank you. Our next question comes from Andy Stapp of BRiley.

Andy Stapp: Good afternoon.

Mark Turner: Good afternoon, Andy.

Andy Stapp: What is a good rate for the effective tax rate going forward?

Steve Fowle: Andy, that is still about a 36 percent rate. We have had some ins and outs this year in terms of tax reserves, and some benefits from bank-owned life insurance last quarter that has hidden that rate a little bit. But 36 percent is a good rate to use going forward.

Andy Stapp: OK. And how much do you have in CDs and borrowings that are scheduled to reprice over the coming quarters, and what is the rolloff rate?

Steve Fowle: In the coming quarter, our CDs don't have any significant lumpiness; I think they are spread pretty well. In terms of borrowings, we had some longer term borrowings mature this past quarter. This coming quarter we don't see a lot, but there is a decent amount-$30 million or $50 million-in the first quarter of next year.

Mark Turner: Longer term stuff rolling off at higher rates.

Andy Stapp: Do you know what the rate of that is?

Mark Turner: Andy, I'm going a little bit by memory here but I remember it being in the 3 percent to 3.5 percent range. If it is significantly different than that we will let people know.

Andy Stapp: OK. And what is the cash flow from your securities portfolio?

Steve Fowle: We are running cash flows of $12 million to $15 million a month, Andy.

Andy Stapp: OK. And what type of yields are you getting on new securities?

Steve Fowle: It has been moving with rates. Obviously it has been lower than we anticipated coming into the year because of the low rate environment. Just having glanced at the purchases we did over the last quarter, probably averaged in the low threes.

Andy Stapp: Alright. Thank you.

Mark Turner: Thank you, Andy.

Operator: Thank you. Our next question comes from Matthew Clark of KBW.

Matthew Clark: Hi, guys. Good afternoon.

Mark Turner: Good afternoon, Matt.

Matthew Clark: On the commercial deposit front, have you guys started to pay interest on your business deposits? I am sure the impact has obviously been very limited given rates are so low, but just trying to get a sense for whether or not you have any desire to maybe pay up a little bit to capture some share, or how you think about defending that share when rates go up?

Rodger Levenson: It is Rodger. We have not embarked down that road yet. We have kind of taken a little bit of a wait and see approach on that. As you know, the vast majority of our commercial deposits are tied to commercial lending relationships. I don't see us changing materially from what our approach has been. They really kind of tag along with the rest of the relationship.

Matthew Clark: OK. Thanks, guys.

Rodger Levenson: Thank you.

Operator: Thank you, ladies and gentlemen if you have a question or comment, please press star and then one on your telephone. Once again, if you have a question or a comment, please press star and then one on your touchtone telephone. Our next question comes from Ronald Smith of WSFS (retired).

Ron Smith: Good afternoon.

Mark Turner: Ron, how are you doing?

Ron Smith: I am doing well, thank you. We are shareholders in the bank. We are retired. I have been retired now for over 20 years, and we still own shares of the stock, and I congratulate you guys on a much improved quarter.

Mark Turner: Thanks, Ron.

Ron Smith: One of the most stimulating discussions I can remember from my time at the bank were the weekly meetings of the asset liability management committee, and that is where my question comes from today. Looking at your annual report from last year, it looks as if retail time deposits were in the area of 25 percent of total liabilities. And you are positively GAAPed, so I suppose that just as we found back in the 1980s that with a positive gap, when interest rates started to go up, we were kind of happy because our assets repriced immediately, because we had significant numbers of loans that were prime rate related, and our liability costs went up only very gradually. I assume that is going to be the case for you guys, because of the GAAP position that was shown in your annual report?

Mark Turner: Ron, thanks for your question. You are a very memorable name around here. Thanks for your service. We still have stimulating discussions, probably more stimulating in the present environment in what goes on from a day-to-day and a week-to-week basis. We are slightly positively GAAPed, so we would welcome a rise in rates for a number of reasons, one because it would help the margin long-term, and two, that would be a sign that the economy is improving, and that would have other positive impacts.

I would point out, though, as we have said in the past, a number of our loans have floor rates in them or defacto floor rates in them. Because WSFS did not lower its prime rate consistent with the Wall Street Journal prime back at the end of 2009, I guess was when prime went down again. So the first 75 basis points of increase for us, you probably wouldn't see a whole lot of improvement in our margin, maybe even a little bit of a slight decrease but after that it would go up.

Ron Smith: The other related issue is the issue of attracting two to five year CD money, and it would appear to me that the interest rate cycle has bottomed, we are on our way back up. How fast it goes up is anybody's guess and that is very dangerous to try to predict. When we thought we were in the part of the cycle where rates were going to rise, we began to price our two to five year CD product a little more aggressively, in order to try to attract two to five year money, again because we thought that with general rates rising the locking in the two to five year liability cost would help us.

Mark Turner: Interesting. We think one of our advantages is, while sophisticated, we are an organization that is much smaller and much more nimble. So, we have the ability to get around the table and talk to people in the field and quickly get a sense for what customer preferences are and what we can do quickly and make changes quickly to do some of those things to get in front of the curve. And so we do try to do that but we are also careful not to try and outguess the market too much because that can, as you point out, be dangerous.

Ron Smith: I agree with you. Well, thanks for taking the time to share with me. I appreciate it very much. Bye bye.

Mark Turner: Thank you, Ron. Thanks for calling.

Ron Smith: Alright. You are welcome.

Operator: Thank you. We have a follow-up question from Michael Sarcone.

Michael Sarcone: Hi, guys. Just two follow-ups for me: first, can you give us any sense of timing on when the construction and residential mortgage loan runoff will be less of a drag on total net loan growth?

Rodger Levenson: This is Rodger. I will speak on the construction and let Rick talk about residential mortgage. I think we are pretty close to the bottom. Our residential CLD number now is down to $45 million. I think that might trail down a little bit. We are seeing some nice commercial construction opportunities, which will more than cover any further decline there. It may go down a little bit more as we kind of work through sort of the final end of many of the credit issues we have, but I think we are close to the bottom of the construction bucket.

Michael Sarcone: OK.

Rick Wright: This is Rick. On the mortgage side, I guess it has been for at least two to three years now we have pretty much been selling everything that we originate. So, I would suspect that the trend will continue about like it is, unless and until we make a decision that we decide to hold on to some of that. In the next several quarters I would expect it to look the same.

Mark Turner: In terms of trends.

Rick Wright: In terms of trends, yes.

Michael Sarcone: Great. And the last question, do you guys have any updated guidance on loan growth?

Rodger Levenson: Only what I mentioned previously. I would expect that our C&I businesses, they have been trending anywhere around the mid-teens to this quarter obviously it was 20 percent annualized. Our full year forecast on that is right around mid-teens. I think overall our loan growth for the year will be in that same guidance that we have given previously which would be mid-single digits for the entire bank.

Michael Sarcone: OK. Thank you.

Rodger Levenson: Mid to low single-digits, excuse me.

Michael Sarcone: OK.

Operator: Thank you. I am showing no further questions at this time. I would like to turn the call back to Mr. Turner for closing remarks.

Mark Turner: Thanks everybody. We appreciate again your time and attention and your interest in WSFS. We are pleased with the quarter obviously, but never satisfied; and, as Steve said, there is still a lot more work to do. But we are excited that the investments that we have been making over the last couple of years are up in the ramp-up curve and starting to pay off and excited also about our continuing ability to manage credit in what for us is, we believe, a stable manageable range, and we will work things down from here. Thank you, and have a good weekend.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. That concludes the program. You may all disconnect. Thank you, and have a nice day.

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