WSFS FINANCIAL CORPORATION

Moderator: Beth Sellers
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Operator: This is conference # 22756730.

Operator: Good day, ladies and gentlemen. Welcome to the WSFS Financial Corporation Fourth Quarter and Full-Year 2015 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 operator assistance, please press star and then zero on your touchtone telephone. As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Mr. Rodger Levenson, Chief Financial Officer. You may begin, sir.

Rodger Levenson: Thank you, (Ronya), and 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; Paul Geraghty, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer.

Before Mark begins with his opening remarks I would 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 on 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, Rodger, and thanks to all of you on the call for your time and attention.

My comments today will be probably a few minutes longer than usual. One because we had a lot of stuff go on in the quarter, a lot of good stuff. And two, because we just completed a year, completed our budgets and are starting a new year. So it's that time where we can give better guidance on what our expectations are for the full year 2016.

So in the fourth quarter of 2015, we reported earnings per share of $0.46 and a return on assets of 1.03 percent on a GAAP basis. However, after adjusting for corporate development costs related to our one closed and one pending acquisition, and a small net loss on the sale of securities and funding, we calculate core EPS for the quarter of $0.59 and an associated ROA of 1.31 percent.

As we do every quarter, we look closely at our results and make adjustments for discrete sizable items that while real and part of doing business we believe are not routine in order to derive our core sustainable ROA. This quarter, as expected, we had a number of these items, primarily from merger-related cost and accretion that, when they are adjusted, indicate a core sustainable ROA of a very healthy 1.24 percent and an associated earnings-per-share of $0.55.

These results exceeded our three-year strategic plan goal of achieving a 1.2 percent core sustainable ROA by this quarter. As you may recall, we had labeled this our “path to high-performing” goal and we updated you every quarter on our progress in our investor presentations.

In this quarter's earnings release, we also provided a summary of how we got from the GAAP reported ROA to our estimated core sustainable ROA and we summarized how we progressed from approximately 78 basis points in core sustainable ROA 12 quarters ago to the 124 basis points of ROA we estimate now. If you haven't done so, I'd encourage you to read that special section of the release.

This quarter also accelerated our trend of strong fundamental performance. As mentioned in the past, our model, because of its heavier mix of fee-based businesses, shows more seasonality than is traditional. So it is more helpful to compare results from the fourth quarter of this year to the same quarter last year. I will also point out any particular trends in linked-quarter growth that may be impacting coming quarters.

Furthermore, I will provide our current outlook for some key operating metrics in 2016. As always, these outlooks can change positively or negatively for many reasons, both in and out of our control.

Highlights for the quarter and associated outlooks for the future include the following major items.

Core net revenue increased $12.3 million or 21 percent over the same quarter last year from double-digit gains in both net interest income and fee income. Net interest income was up 25 percent from both robust acquisition and organic growth. Total fee income was up 13 percent, primarily from organic gains in both our Wealth segment, which saw a 17 percent fee increase, and our Cash Connect segment, which saw a 14 percent fee increase over the same quarter last year. For 2016, we expect the total organic core fee income growth will be in the low teen percentages as well.

While core net revenue increased $12.3 million, or 21 percent, total core expenses increased only $3.7 million, or 10 percent. This was a result of: our achieving broader economies of scale through growth, our earlier investments maturing, increasing the contribution margin from certain business lines and prudently managing other expenses at the margin. These revenue and cost dynamics led to an increase in operating leverage of 11 percentage points in the last year alone.

Given we're a growing institution, we manage more to our efficiency ratio than to strict expense growth and are pleased to have also have exceeded our strategic plan goal of getting to a core efficiency ratio of about 60 percent, which we believe is a healthy level given our mix of fee-based businesses and our high service business model. For the full-year 2016, we expect that we would be around that 60 percent efficiency percentage as well, with potential for improvement as we continue to grow and once the synergies from the pending acquisition of Penn Liberty are achieved.

Our net interest margin increased to a reported 4.14 percent, but included a lot of merger-related accretion and other large additions. The internal analysis we shared in our release, normalizes that margin to an estimated 3.83 percent, a nice increase over both the reported and normalized margin from last quarter and this quarter last year.

More importantly, we now expect, given our hard-earned improvement in the mix of assets and funding, and our well-managed asset-sensitive position, that our margin will be in the mid-to high-380’s well into 2016, but as we saw this quarter, can fluctuate based on normal merger accretion, reverse mortgage yields and accreted fees from normal loan payoffs.

On top of the $291 million of loans added from the Alliance acquisition that closed in October 2015, we organically grew loans another $122 million in the quarter, or 15 percent on an annualized basis. Our loan growth for all of 2015 was $586 million or 18 percent. That growth came from all major lending categories and was very balanced, almost exactly evenly split with nine percentage points of growth coming from acquisition and nine percentage points of growth coming organically.

That's a welcomed dual accomplishment showing we can grow prudently and robustly by both methods and one method does not impede our success in the other. In 2016, we again expect we will growth loans organically by high single-digit percentages on average, but quarterly results can and have varied as part of the nature of the business.

In fact, some of the outsized 15 percent annualized growth we showed in the fourth quarter of 2015 was unexpected and came because about $40 million of loans we believed would pay off and go into the permanent market by year-end will not do so until early 2016. On top of that high single-digit organic loan growth expectation for 2016, we also expect approximately $500 million in loans will come over from the planned combination with Penn Liberty Bank in early August 2016.

We also maintained a healthy loan-to-deposit ratio of 99 percent at year-end by growing customer funding $441 million in the quarter. $339 million of that came from the Alliance acquisition and another $102 million or 12 percent annualized, came from good organic growth and the organic growth came mostly in core relationship deposit accounts.

In 2016, we anticipate our organic deposit growth percentage will be in the mid to high single-digits and another approximately $600 million in deposits will come over upon the combination with Penn Liberty Bank in August 2016.

Credit quality continued to be good. Nonperforming assets declined on both a percentage and a dollar basis. The classified loans to Tier 1 capital plus an ALLL ratio stayed essentially flat and the small increase was both expected and was entirely from acquired loans.

Charge-offs were a low $1.1 million or 12 basis points annualized in the quarter. Delinquencies did increase. However, the majority of the increase was due to one highly seasonal business that has shown this payment pattern in the past and that delinquency was cured in early January. The remainder of the delinquency increase came from two relationships that had already been categorized as NPAs and therefore have already been written down to expected net recoverable value. As a result, we are comfortable that the increase in delinquencies is not indicative of a broader trend.

Total credit cost for the quarter, (that is including provision, OREO, work out and related costs) were $2.5 million and for 2015, came in at $9 million, right in line with the $2 million to $2.5 million per quarter on average we have been estimating. For 2016, we expect organic credit costs will be just a bit higher than the 2015 total due to growth, but as we have seen, credit costs can vary from quarter to quarter, again, as part of the nature of the business.

As a reminder, our first quarter is usually our weakest. Revenues are temporarily hampered by fewer days, seasonal slowness in fee-based businesses and generally lower economic activity, (which can be further impacted by occasional harsh weather) in the northeast. Furthermore, expenses are seasonally elevated by the impact from the change in benefit plan years, including higher paid time off accruals and 401(k) matching costs and employer-paid taxes until caps are met, as well as higher expenses like snow removal.

All of that detail aside, we are very pleased, not only to have exceeded our three-year strategic plan ROA goal, but also we are grateful for the intense work, good management and steadfast governance that went in over many years to achieving this milepost in our performance. Given the strength and momentum of our business model, and of our brand, the organic market opportunities ahead, the pending combination with Penn Liberty Bank and our terrific team of Associates, we look forward to a successful 2016.

Thank you and at this time, we would be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star and 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.

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

Frank Schiraldi: Hi, gentlemen. Just a couple questions. First, on the margin, I wonder is the best way to think about the NIM going forward, Mark, you gave the high 3.80 percents level. And then would it be reasonable just to add the eight basis points of normal accretion from Alliance to that number to think about what a decent reported NIM might look like, at least in the first half of the year?

Mark Turner: So, Frank, that number that I gave of the mid to high 3.80 percents would include normal accretion from acquisitions. And what I would say on top of that though, what might also happen are the routine variations we have in reverse mortgage income, but also any accretion we might have from pay offs, which happen from time to time.

They happen to have an outsized amount in this quarter, but those type of things can still happen. So kind of a core number, mid-to high 3.80 percent, which would include normal accretion--a normal amount of accretion from loan payoffs, and normal reverse mortgage activity. But it could vary around that mid- to high-3.80 percents depending on the level of that stuff.

Frank Schiraldi: OK, great and then, Mark, I think you said, guided to low teen growth organically for fee income next year. If that's the case, I'm just wondering how impactful is the weaker equity markets in the first quarter on your wealth management revenues?

Paul Geraghty: Hi, Frank, Paul Geraghty here.

Frank Schiraldi: Hi, Paul.

Paul Geraghty: I think obviously, if the markets don't improve, we'll have some minor revenue impact on that. But our fee-based, or our market-based fees on AUM is really in Cypress and only represents about 14 percent of our overall wealth revenue. Most of our revenue is derived from the transactional fiduciary services business at Christiana, which is not AUM dependent.

So clearly, we have a little bit of a budgeted revenue shortfall to make up in other places if the market continues to be so volatile. But I don't see it as a major issue in achieving our plans next year in terms of revenue and profitability.

Frank Schiraldi: OK, great. Thank you.

Paul Geraghty: Thank you.

Operator: And our next question comes from the line of Catherine Mealor from KBW. Your line is now open.

Catherine Mealor: Thanks, good afternoon.

Mark Turner: Hi, Catherine.

Catherine Mealor: One more on the margin and the balance sheet. How should we think about the size of the securities portfolio? That's been trending down the past couple quarters. Do you expect to continue that trend or has that kind of flat lined from here, ex acquisitions?

Mark Turner: Flat to slightly down is what you should look at. We have kind of an internal framework that we use. When the yield curve and our capital is giving us opportunities to add leverage, we might have our securities portfolio grow to as much as 20 percent of our total balance sheet.

And when either capital is constrained or, in this case, because the yield curve is not robust, we would let that number drift to the mid- to lower-teens. But we're kind of comfortable more or less of where it is right now, maybe declining a little bit and have loans grow into capital as opposed to investments, which has, in the past, and I think will continue to help our overall margin percentage.

Catherine Mealor: OK, great. And then one follow-up. It's just on the expenses. Can you find just the timing on the Alliance cost savings, how much we saw this quarter and if there's any more to go into the next quarter?

Rodger Levenson: Hello, Catherine, it's Rodger.

Catherine Mealor: Hello, Rodger.

Rodger Levenson: How are you doing? So just to remind everybody on the call, we announced and anticipated that we'd get approximately 40 percent cost savings out of the Alliance expense base. And I would tell you that we've achieved the vast majority of that. There's a little bit of a tail on some professional fees and some other things, but most of those expenses we've accounted for those in the first full quarter of the combination.

Catherine Mealor: OK. So it would be a good run rate to grow from?

Rodger Levenson: So what I would add to that, I'm sorry, go ahead.

Catherine Mealor: I was just going to say, the $41 million is a good run rate to grow from into 2016?

Mark Turner: So that's where I was going to go. There was a question earlier about how much of the margin might be – what the normalized margin might be going forward and then we talked about that mid to high 3.80 with some potential upside based on volatility and normal accretion and reverse mortgages, et cetera.

On the expense side, we had a higher level of expenses in the quarter from a few things; one, marketing costs and that's for the whole year, as we expanded the number of products and expanded in new geographies, we could see that potentially decline; otherwise, compensation costs were much higher than in a normal quarter because of the true up at year end based on our performance. Our performance being so good, compensation cost isn't necessarily linear with the performance, but increases as we get the higher levels. And then we also had over $1 million in the quarter of professional, legal and dispute-related costs for some legacy trust accounts which is a normal part of the business, but happened to be very heavy in this quarter. So there's some potential on the expense side for that to go down as well.

Catherine Mealor: All right. That's great. Thanks so much. Congrats on a good quarter.

Mark Turner: Thank you very much.

Operator: And our next question comes from the line of Matt Schultheis from Boenning and Scattergood. Go ahead, sir.

Matt Schultheis: Good afternoon. How are you?

Mark Turner: Good, Matt. How are you?

Matt Schultheis: I'm doing well, thanks. Really quickly, and I apologize if you already covered this. Can you remind us what the difference is between the collateral value and the book value or what's on your books for the reverse mortgages that you brought back into the balance sheet a couple years ago?

Mark Turner: Yes, so thank you. They're on our books at right around $25 million. I'm using round numbers. And the lower of the P&I that's owed us, or the collateral value, which is just the right way to look at it, is $47 million. So that's $22 million in income that could come into income over the remaining life of the portfolio.

Matt Schultheis: Which should, in theory, be getting a little bit shorter every day?

Mark Turner: Yes. Yes.

Matt Schultheis: OK.

Mark Turner: Father time, is unbeaten and untied as far as I know. The average age of people that are remaining participants in that portfolio, I think is approaching 95 years old.

Matt Schultheis: OK. Well, thank you very much.

Mark Turner: All right, thank you.

Operator: And our next question comes from the line of Joe Gladue from Merion Capital Group. Your line is now open.

Joe Gladue: Good afternoon.

Mark Turner: Good afternoon, Joe.

Joe Gladue: On Cash Connect, I guess the press release mentioned that you'd gotten some new customers in the account. Just wondering, did we see the full impact of that in the fourth quarter or did that come in late? Just wondering what additional improvement we might have seen from that end.

Rodger Levenson: Joe, it's Rodger. We got the majority of the impact in this quarter. It was one large customer that they acquired; they've been working on for a long time. Very prominent in the casino industry and that is why it is such a significant amount of cash. But the majority of that occurred in the quarter.

Joe Gladue: OK. Fair enough. And I guess …

Mark Turner: The upside there in the cash connect would be the increasing penetration of their total cash management services into their pure vault cash customers as well as the new products they're rolling out. Most prominently, the deposit safe product that has rolled out this year which is gaining some traction and we talked about in the press release.

Joe Gladue: OK. All right. And on the other question I had was, I guess, relating to provisioning in reserve levels. Now obviously, with the asset quality's getting better and reserves have been increasing as a percentage of non-performers, but I guess you could stand below 1 percent as a percentage of total loans now. I'm just wondering how we should be looking at your provisioning going forward in relation to that declining reserves to total loans?

Rodger Levenson: Hi, Joe, it's Rodger. So first thing I would point out is as you know, that ratio refer that you referred to is impacted by the acquired loans. Actually if you exclude the acquired loans, that ratio would be 1.11% for us.

Joe Gladue: OK.

Rodger Levenson: But all that being said, if you look at the leading indicators of asset quality, which is for us the best barometer of how to forecast provision, both delinquency and problem loans and when I say delinquency, I'm excluding that one large situation which subsequently was cured after the first of the year, they remain at historically low levels.

So we feel confident in the guidance that we've been giving for a while now of between $2 million and $2.5 million for all credit costs, so that would be ALLL plus workout costs, OREO, et cetera. As a quarterly run rate for where we're at on provision, obviously caveated significantly by economy; we'll be lumpy, as Mark said, from quarter to quarter, but that's our best estimate sitting here today.

Joe Gladue: OK. All right. That's it for me. Thank you.

Rodger Levenson: Thank you.

Operator: Again, if you have a question at this time, please press star and the one key on your touchtone telephone.

I'm not showing any further questions. I would like to turn the call back to Mr. Mark Turner for any further remarks.

Mark Turner: Thank you again, everyone. We appreciate your time and attention. We will be on the road at an investor conference in early February and look forward to seeing many of you there. Have a great weekend.

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

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