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's Second 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 follow at that time. If anyone should require assistance during the conference, please press star then zero on your touchtone telephone.

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 the time to participate on this call. With me today participating on the call are Mark Turner, President and CEO; Rodger Levenson, Chief Commercial Banking Officer; Paul Geraghty, Chief Wealth Officer; Rick Wright, Chief Retail Banking Officer.

Before Mark begins with his opening remarks, 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 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 cost 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 said, I'll turn the call over to Mark Turner for his opening comments.

Mark Turner: Thank you, Steve, and thanks everyone for your time and attention today.

We are pleased to report earnings for the second quarter of $0.76 per share and earnings for the year-to-date of $1.41 per share, which are improvements of 38 percent and 47 percent over the same period last year.

As importantly, in the second quarter, we are pleased to have delivered on our "asset strategies plan", which we announced in early May to significantly reduce balance sheet risk while we also improved earnings and capital. Credit quality metrics across the board were dramatically improved; with Classified Assets down $96 million or 30 percent, Delinquencies down $48 million or 57 percent, and Non-Performing Assets down $27 million or 30 percent.

On average that's a 39 percent improvement in these major leading and lagging credit quality indicators. This was all accomplished through a purposeful, robust and aggressive plan, which included bulk sales, individual loan pay-offs, pay-downs, charge-offs and notably also net positive risk-rating migration in the loan portfolio this quarter.

The unusual for us, large bulk sale activities resulted in $14.6 million in incremental credit costs, which were taken and accelerated into this quarter. On the problem loan sale side of the Plan, we accelerated future potential losses into the quarter and likely took larger losses than needed if we were going to work problem loans out over time. We did this for several reasons.

On balance, we believed the time was right. We have been evaluating the problem loan market continually over the cycle and the market had improved for problem loan sales. We balanced the value we would get now versus the value we might get in the future and the time management distraction and cost to get there. The actions have significantly improved our risk profile; and should substantially improve credit cost going forward; and they will also give management even more time and latitude to pursue prudent market share and growth opportunities.

Importantly, the actions during the second quarter were focused on reducing the loans with the highest risk of potential future loss. This includes a 22.5 percent reduction in construction loans.

The remaining small construction loan portfolio consists primarily of recent transactions, which were underwritten to current values and a small portion of order loans, which have been well reserved for with updated collateral information.

In addition, our remaining classified assets in our other portfolios have been aggressively identified and marked using updated collateral valuations. I'd also point out that performing loan delinquencies are now a very low $8 million, that's on a $2.7 billion loan portfolio or only 30 basis points of total loans.

As a result of this and all that we've done recently, we are now forecasting credit costs of approximately $8 million to $10 million, second half of 2012. This is comprised of a loan loss provision of $3.5 million to $4 million per quarter and other Workout and REO expenses of $500,000 to $1 million per quarter. As always, this can be lumpy in any individual quarter and assumes no major changes in the economy.

Furthermore, the strategies taken during the quarter also significantly accelerated the long-term trend of improvement in our Non-Performing assets. Going forward, we expect this trend will continue, but in a much more modest pace, consistent with the rate of economic improvement. This is the expected long-term trends and as we've said NPAs can also be lumpy in any individual quarter.

Finally, on loan quality, the significant improvements across the board abundantly supports our Allowance for Loan Loss levels at June 30. One indication of that is our allowance coverage to Non-Performing Assets increased from 75 percent last quarter to 109 percent this quarter.

On the flipside of the same Asset Strategies Plan, we sold over $400 million of investments in our securities portfolio, resulting in $13.3 million in gains. Along with the $2 million in gains taken in the first quarter of 2012, this essentially offset the incremental credit costs in our problem loan dispositions, while almost maintaining the same level of unrealized securities gains in the total portfolio at June 30 as we had at March 31.

The investment sales are a continuation of what we've been doing for several quarters now. We've made very good securities investments over the years. That fact and the recent rate environment created unrealized gains in the portfolio that were substantial, but also subject to eroding with high prepayments we are experiencing or rising rates or a further downturn in housing. It was therefore, prudent to reduce those risks, harvest the gains and use them to preserve capital while we're accelerating problem loan losses.

And as just one additional data point, the investment portfolio now includes no RE-REMICs, no non-agency mortgage-backed securities, and no downgraded securities. All in all, with the successful completion of the dual Asset Strategies Plan we announced in May, we accelerated some securities gains while they were available and accelerated loan losses into the same quarter, resulting in a much cleaner total balance sheet profile, including significant improvements in asset quality and capital.

Going forward, we've recognized net interest margin has been modestly impacted by turnover in the investment portfolio at lower yields, but we believe any margin impact will be more than offset by much improved credit cost.

On other fronts, loans were down slightly in the quarter because of the aforementioned planned sale of problem assets and deposits declined slightly due to the intentional run-off of higher cost funding as part of our margin management. Excluding the loan disposition activity, loans increased modestly by an annualized 4 percent and CORE deposits also increased modestly by 4 percent annualized.

Growth in the second quarter was impacted by management's significant attention on executing on the Asset Strategies Plan as mentioned, that intense execution this quarter will bear fruit in lower credit cost in the future and more management time and latitude to pursue growth opportunities.

We also saw some churn in our loan portfolio during the quarter. While most of this was related to our Asset Strategies, we did have several larger pay-offs, including one large C&I customer who sold their business. We have also seen a reduction in demand for new credit due to business owners concerned over the uncertainty around the economy, healthcare costs, regulation, and taxes.

And in addition, pricing has become very competitive for larger commercial opportunities, however, we still see opportunities to take good market share, and are now forecasting loan growth for the remainder of the year in the mid-single-digits.

Consistent with our strategic plan, in the quarter, we also opened two new retail branches aimed at growing market share in key Delaware communities with strong demographics and profit prospects. As mentioned in the release, these two branches are at the tail-end of our recent franchise investment phase; as of the end of last year, we turned towards optimizing our substantial investments, improving credit quality, and improving the bottom line.

Fee income was also up nicely across the board because of franchise growth and the expected second quarter seasonality bump, and growth has been especially strong in our Wealth Division. Excluding securities gains and unanticipated BOLI income, fee income was up 10 percent over this quarter last year, and is a strong one-third of total revenue, providing a very nice impact on both the bottom line and on revenue diversification.

Expenses, excluding the incremental costs from the both loan sales, continue to reflect growth in our franchise. We've also recently concluded details of a quick-hit efficiency plan, which kicked off in the second half of the year, and is aimed in improving our annual run rate in pre-tax earnings by about $4 million, primarily through discretionary cost cuts.

Management is properly focused on long-term value creation and sustainable bottom-line performance.

In the second quarter, excluding the incremental and largely offsetting cost from both loan sales and security gains, we believe we had a fundamentally solid quarter and positioned ourselves well for the future.

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

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

Again, if you have a question, please press star then one.

Our first question comes from Michael Sarcone of Sandler O'Neill. Your line is open.

Michael Sarcone: Hey, good afternoon, guys.

Mark Turner: Good afternoon, Michael.

Michael Sarcone: So just, first, on the non-credit-related operating expenses, they were up in 2Q, and I know you just mentioned an expense save plan. Can you just give us some color on the non-credit related increase in operating expenses during the quarter, and then maybe elaborate more on this expense save plan?

Mark Turner: Sure. I'll have Steve do that. Steve?

Steve Fowle: Yeah. Expenses were impacted by completion, as Mark said, of the remaining items from our recent franchise investment phase, including the branch openings and the move of our operations center. Related to those, the franchise growth we saw about a $1 million increase from same quarter last year. Additionally, expense increase is also due to increased incentive compensation, about $1 million of that, related to improved company performance and to the timing of awards, some of which is due to our exit from TARP this quarter.

Michael Sarcone: OK.

Mark Turner: On the second part of the question Steve, some detail on the quick hit efficiency plan?

Steve Fowle: Yeah, on the quick-hit efficiency plan, we have already identified and started to implement, as Mark said, almost $4 million in cost savings initiatives. That will be implemented during 2012, so the full benefit will be seen in 2013. Of this, about $1 million has already been implemented, $2 million more is scheduled for this quarter, and the remainder by January 1, 2013.

Michael Sarcone: OK. And then on net charge-offs, not related to the bulk sale, look like they increased pretty significantly over the prior quarter. Can you talk about that?

Rodger Levenson: Yeah. Mike, it's Rodger Levenson. The majority of those charge-offs were reserves previously taken for marks on the portfolio, so it really was not related to any significant increase in loss content.

Mark Turner: Specific reserves we had on impaired loans that we get guidance from the regulators that they should be taken as charge-offs.

Michael Sarcone: OK. Thanks. And then just a last question from me, can you talk about what you are seeing in terms of price competition on the commercial side and maybe quantify what kind of rates you are putting new loans on?

Rodger Levenson: Yeah, Mike, again, this is Rodger. We're seeing, particularly for larger opportunities with high-quality credit characteristics, very aggressive fixed rate pricing. We are seeing regularly for five-year money numbers below 4 percent and now starting to see 10-year money at around 4 percent. On the floating rate side, we are seeing pricing in the low L+200 range. Those are places generally we don't play, unless it comes along with a full relationship, which has other sources of revenue and income to it and meets our returns thresholds, but there is no question that there is overall compression in loan prices.

Michael Sarcone: OK, thank you.

Mark Turner: Thank you.

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

Our next question comes from Matt Schultheis of Boenning & Scattergood. Your line is open.

Matt Schultheis: Good afternoon, gentlemen.

Mark Turner: Good afternoon, Matt.

Matt Schultheis: Quick question on the quick hit cost saves. I know you sort of threw out the dollar figures and when. Are these coming from vendor contracts? personnel?

a little bit from A? a little bit from B? – where are you actually getting these from?

Steve Fowle: Yeah, this is really a combination of things. There is some contract renegotiation that has been providing some substantial improvement. There has been some technology improvements that are allowing us to increase efficiency and there are additionally some headcount saves. So, there is no really one specific area, it's really a number of ideas that have come from across the company.

Matt Schultheis: OK. With regard to these loan prices coming down considerably and sort of the lack of demand for loans or the slowdown in the demand for loans, are you seeing the competitors who are pricing this aggressively? Are they the traditional in-market competitors or are you seeing people from out of your market? And, how is the customer flow out of what used to be Wilmington Trust?

Rodger Levenson: Yeah, Matt, it's Rodger again. The pricing competition is coming from our traditional in-market competitors. Clearly, where we see it most acutely is in the larger banks. When they want to get aggressive they are getting aggressive. I would say that as it relates to our business and our pipeline a significant piece of the business that we booked and are the current pipeline continues to be taking market share. Legacy Wilmington Trust M&T still has the largest market share, so we see a significant component of that.

Matt Schultheis: So, am I reading this right that maybe M&T is actually defending this market share pretty aggressively?

Rodger Levenson: I think in selected cases, but we continue to be successful in winning relationships based on the overall value proposition that we provide. But M&T is a very good competitor, and I think they are doing everything they can to hold on to relationships.

Matt Schultheis: OK, that's it for me. Thank you very much.

Operator: Thank you. Our next question comes from Catherine Mealor of KBW. Your line is open.

Catherine Mealor: Good afternoon, everyone.

Mark Turner: Good afternoon.

Catherine Mealor: Just a couple of follow-up questions. Maybe first, a little bit on the securities sale. Is the securities sale fully reflected in the 2.46 percent yield that you saw this quarter or should we see another decline as it's fully reflected in next quarter's results?

Steve Fowle: Yeah, this is Steve. The sales and reinvestment of the securities happened throughout the quarter and a portion of purchases will settle in the third quarter. So, as a result, we'd expect some similar margin pressure in the coming quarter.

Catherine Mealor: OK. About the same level you saw this quarter?

Steve Fowle: Slightly less, but directionally the same.

Catherine Mealor: OK. And then any update on your outlook for repaying the preferred in light of your recent balance sheet improvement strategies?

Mark Turner: Yeah, thanks for asking the question. As you know, our TARP preferred shares were sold at auction in March to private investors. That was good for us, because it released us from a lot of government restrictions.

Our continuing strong intention is to redeem the privately held preferred shares before the step-up rate in January 2014 and not by issuing more common stock.

For those of you that don't know over the course of the cycle, we took about $53 million of what once was government TARP-preferred, and issued $75 million in common stock over the cycle.

We believe we have the wherewithal to get it done. And in fact, I think our results and the actions taken in the second quarter to reduce significantly balance sheet risk, and improve earnings and capital, only helped us in that goal, as does the fact that shares are now in the hands of private investors and we can negotiate redemption with them at the right time. And, as you know, we have at worst a par call on those.

However, I can't make any assurances. We also need regulatory approval to redeem these. We've had periodic discussions with the regulators on redemption plan, constructive discussions including a redemption of the warrants. At this time, Catherine, that's pretty much all we can say.

Catherine Mealor: Right, sounds great. Thank you.

Mark Turner: OK, thank you.

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

Our next question comes from David Peppard of Janney Montgomery. Your line is open.

David Peppard: Yes, thank you. This is Dave Peppard. Most of my questions have been answered.

Mark Turner: Hey Dave.

David Peppard: But I did want to check in, in the press release you said that provision would have been $2.2 million excluding the bulk sales, is that a pretty good run rate going forward, given the new levels of non-performers?

Mark Turner: In my earlier comments, David, we gave guidance on that. For the rest of the year, we said – that's for the last two quarters of this year -- that total credit cost would be between – we estimated it based on a fairly detailed analysis -- between $8 million and $10 million.

Total credit cost consists of two items, provision and then other workout and OREO costs. And we broke that down by a quarter to say about $3.5 million to $4 million per quarter in provision and $0.5 million to $1 million dollars a quarter in other loan and OREO costs. That's our best estimate at this time. But as I also mentioned, it can be lumpy, depending on what happens in any quarter.

David Peppard: All right. Thank you for clearing it up.

Mark Turner: All right, thank you.

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

Mark Turner: All right, thank you, everybody. We'd just like to reiterate that we believe that we accomplished a great deal this quarter in terms of our Asset Strategies Plan, significantly improving the balance sheet profile, while improving earnings and improving capital, which puts us in a very good place going forward.

We look forward to getting out and talking to you. I know we'll be at conferences and on the road over the next several weeks. We wish everybody a great weekend.

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

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