PARTICIPANTS

Corporate Participants

Stephen A. Fowle – Executive Vice President and Chief Financial Officer, WSFS Financial Corp.
Mark A. Turner – President and Chief Executive Officer, WSFS Financial Corp.
Richard M. Wright – Executive Vice President and Chief Retail Banking Officer, WSFS Financial Corp.
Paul D. Geraghty – Executive Vice President and Chief Wealth Officer, WSFS Financial Corp.
Rodger Levenson – Executive Vice President and Chief Commercial Banking Officer, WSFS Bank

Other Participants

Frank Schiraldi – Analyst, Sandler O'Neill & Partners LP
Jason D. O'Donnell – Analyst, Merion Capital Group
David Peppard – Analyst, Janney Montgomery Scott LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the WSFS Financial Corporation 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 be given at that time. [Operator Instructions] As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Mr. Steve Fowle, Chief Financial Officer. Please go ahead.

Stephen A. Fowle, Executive Vice President and Chief Financial Officer

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

Before Mark begins with his opening remarks, I'd 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 our most recent quarterly reports on Form 10-Q as well as other documents we periodically file with the Securities and Exchange Commission.

And with that statement read, I'm going to turn the presentation over to Mark Turner.

Mark A. Turner, President and Chief Executive Officer

Thanks, Steve, and thanks, everyone, for being on the call. We are pleased to report earnings in the second quarter of 2013 of $10.9 million or $1.16 a share. Earnings per share for the quarter and for the year-to-date improved over 50%, that's 5-0, from the same periods last year. And this quarter earnings per share represent the best for the company since the first quarter of 2008.

Further, return on assets reached an important benchmark of 1.0% and return on tangible common equity reached a healthy 12.2%. Improvements were achieved almost across the board in all business segments and major line items.

Total credit costs including provision, workout and other credit costs were $2.4 million, essentially flat with last quarter and meaningfully lower than our previous expectations, driven by a broad improvement in credit quality. Charge-offs, non-performing assets, non-performing loans, delinquencies, classified and criticized assets, all improved. This is the second quarter in a row where total credit costs have come in well below our previous expectations.

Moreover, the second quarter is an important quarter because annual and attested financial statements come in for many of our commercial clients, which give us an objective view on the condition and prospects of our customers. Because of the borrower factors and a slowly, but steadily improving local economy, while credit cost can always be uneven, we expect total credit cost in the second half of 2013 to come in below our previous guidance and to remain around the levels seen in the first half of 2013.

More importantly, total core revenue, which excludes securities gains and any impact from accounting changes, was up 20% on an annualized basis over the first quarter of 2013. This too came in almost all business segments and major line items. We expected a seasonal bounce from the slower first quarter because there are the fewer number of days and generally speaking lower spending and commerce associated with the winter months of the first quarter.

However, even factoring for seasonality, our business segments showed good fundamental year-over-year growth this quarter including core fee income, which grew 12% year-over-year and now represents a robust 37% of total revenue providing good strength and diversity to our revenue engine.

Now I'd like to dive down a bit and give a view into each of our major business segments. In our primary business of community banking, net interest income was up 6% annualized from the first quarter of 2013, driven by a four basis point greater net interest margin percentage and healthy loan growth. The net interest margin and net interest income were positively affected by earning asset growth and improved mix of earning assets, pricing decisions in the deposit base, especially time deposits, and the balance sheet repositioning we undertook in late 2012 into early 2013.

Based on trends leaving the quarter and other visible data, we expect our margin percentage for the next couple quarters to be flat to up a couple basis points. And while overall deposit balances were down, reflecting occasional volatility in trust and commercial accounts as well as letting higher cost time deposits run off, core deposits now represent 81% of total deposits, and demand deposits are half of core deposits. As a result, deposit service changes were up for the first quarter because of this growth and the seasonal bounce.

Importantly, loan balances were up 8% annualized, reflecting a strong 10% annualized growth in commercial lending, primarily commercial real estate, coming from good market share gains. Including the slower first quarter, we still expect mid-single digit total loan growth for the full year 2013, led again by commercial loans.

In Cash Connect, our ATM servicing division, core net revenues were up significantly, reflecting seasonal activity, new customers and new product offerings to existing customers. Backing out the recent accounting change of Cash Connect we've discussed in the past, which inflates both revenues and expenses by a like amount, real net revenues were up 10% over the second quarter of 2012.

The wealth management segment continues to show excellent growth as fiduciary revenues were up 36% annualized from the first quarter and 18% from prior year levels, again reflecting a seasonal bump, as well as fundamental growth in this business in both personal and corporate trust accounts.

On top of the strong revenue growth, expenses were managed prudently and, ex the Cash Connect accounting change, were fundamentally flat over this quarter last year as we continue to benefit from improved credit costs, lower regulatory related costs, and as we optimize the strategic investments made over this last cycle, as we promised.

Now, taking it back up to the whole company view, as a result of the significant revenue growth and the low expense growth, operating leverage accelerated in the quarter. Pre-provision net revenue, excluding securities gains, was up 49% annualized from the first quarter of 2013 and up 19% from this time last year, again demonstrating both the seasonality bump and the fundamental momentum achieved over the past year.

These strong results reflect our execution on continuing market opportunities, investments made over the cycle, and most importantly, our differentiating brand and business model. Our business model stresses being a great place to work, involved in the community, developing engaged associates, providing stellar service to our customers, and growing customer advocates, all of which have won numerous awards in recent years.

These are important because they are the leading indicators of our success, and as expected, they are also showing up in our financial performance. Because the local economy is showing improvement and because our leading indicators are good and reflect years of foundation, hard work and discipline, we believe we are poised for continued growth in the second half of 2013.

Finally, as another indicator of our very good position, we're also pleased to report that we received the regulatory okay to retire our former TARP preferred securities and to retire them from available cash-on-hand.

We repurchased $20 million at essentially par late in the second quarter in the open market and expect to redeem the remaining $32.6 million at par by the end of August, using our cash at the holding company. On a pro forma basis, redemption of this excess capital will improve earnings per share by about $0.30 per year, which will kick-in in full in the fourth quarter of 2013.

Thank you. And at this time, we'd be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Frank Schiraldi from Sandler O'Neill. Your question, please.

<Q – Frank Schiraldi – Sandler O'Neill & Partners LP>: You've talked about in the past the potential for replacing TARP with some lower cost preferreds just because of the some of the growth opportunities you're seeing. Is that something that you've talked about or decided upon? Is that something we might see when you redeem the remainder of the TARP?

<A – Mark Turner – WSFS Financial Corp.>: Yes. Thanks, Frank. Good question. We did a deep evaluation of that literally in the last month to six weeks, and came to the conclusion that swapping of TARP for something else was impractical, just based on the legalities and the technicalities of doing that. Also, looking at, frankly, the coupons that might be available to us, factoring in the rate and the cost – the coupon wouldn't be a whole lot different than the 9% that the TARP would ratchet up to come February of next year.

So, at the end of the day, that alternative was too costly for us as capital and just kind of unwieldy and impractical to do. So we shelved that idea in favor of redeeming this capital, which we believe is excess. If we were to do something like that, that would have been frankly just overly dry powder and not for any specific purpose in the near term.

<Q – Frank Schiraldi – Sandler O'Neill & Partners LP>: Got you. Okay. And then I just wanted to ask a general question on deposit service charges. They're fairly strong in the quarter, and I know seasonally they're a little weaker in 1Q. I'm just wondering if we might expect a bit of weakness going forward if customers – what I've been hearing just more generally customers are changing the way they're doing things and trying to minimize fees. Could you just maybe talk a little bit about that, Mark?

<A – Mark Turner – WSFS Financial Corp.>: Yes, actually, Rick Wright is right here. Rick is the Head of our Retail Banking Division, so I'll have Rick speak to that. Rick?

<A – Rick Wright – WSFS Financial Corp.>: Yes, in the second quarter, we were actually down about 82,000 versus last year based on some of the customer behavior that we've seen, primarily foreign ATM withdrawals and decline in our non-customer check cashing fees. But we actually anticipate service charges growing.

We introduced a new product line earlier in the year and we have yet to convert our grandfathered products over to that product line. That product line will enhance balances and fee income going forward. And we expect that to occur late in the third quarter. So we'll get a little bit of lift in the third quarter and a lot more lift in the fourth quarter.

<Q – Frank Schiraldi – Sandler O'Neill & Partners LP>: Okay, great. And then just finally, I just wondered if you could remind us on your thoughts, Mark, on M&A opportunities versus organic opportunity. Obviously, the latter seems to continue to be very strong here?

<A – Mark Turner – WSFS Financial Corp.>: Yes. Thanks. And we have plenty of organic growth opportunities and are continuing to focus primarily on that. However, we are, as we mentioned in the past open for small acquisition opportunities that were in-market, contiguous, low- risk, well priced and structured and immediately accretive.

Obviously, that sounds like motherhood and apple pie, but given what we're seeing in the marketplace and the chatter and what we've seen elsewhere and conversations, some direct, some indirect, we believe some of those opportunities will present themselves over the next couple of years. But I can't handicap whether any of those would come to fruition.

<Q – Frank Schiraldi – Sandler O'Neill & Partners LP>: And when you say small, are you – what sort of I guess size of your asset base do you mean when you say small?

<A – Mark Turner – WSFS Financial Corp.>: A few hundred million.

<Q – Frank Schiraldi – Sandler O'Neill & Partners LP>: Okay, okay, great. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Jason O'Donnell from Merion Capital Group. Your question please.

<Q – Jason O'Donnell – Merion Capital Group>: Fee income was obviously a real source of strength this quarter. With respect to the $700,000 linked quarter increase in other income, what was the driver there and are there any non-recurring items in that line item we should be thinking about?

<A – Steve Fowle – WSFS Financial Corp.>: Yes. Hi, it's Steve Fowle. Again, Mark talked a little earlier about seasonality, and seasonality absolutely plays into the fee income line item, first quarter being weakest quarter for us and second and third quarter typically being about on par with each other and the strongest of the quarters. That said, really across all of our business lines, we did have strong growth in fee income, whether it's the banking segment with the strong improvement in mortgage banking or our Cash Connect division, which is our ATM division or our wealth business.

Cash Connect itself saw a number of wins this quarter. Mark talked to the growth in that business that added to fee income, and next quarter should be a little quieter in terms of growth, but we continue to expect high-single digit growth in that business longer term. And let me ask Paul and Rick both to comment specifically on their businesses. Paul?

<A – Paul Geraghty – WSFS Financial Corp.>: Thanks, Steve. We've seen real strength in the personal trust area coming off the business that we booked right at the end of the year and recognized the revenue from that throughout the year. And the real estate related improvement through capital markets activity has really been a source of strength in the second quarter of this year on the institutional trust side.

And the rebound in market values with respect to our investment management area has also helped propel our growth. So we feel good about the quarter and we feel good about the continuing trend through the end of the year.

<A – Rick Wright – WSFS Financial Corp.>: This is Rick. With regards to mortgage banking, we had a big quarter. The big quarter was due to some of the incoming volume that we had, but we did push through some of the business that was at sort of backlogging at some of our investors. And while we see that refis are clearly slowing, we would expect to see some of the purchase activity increase the percentages is gaining significantly for us. And if we were trying to handicap the coming quarters, we'd probably say it would be down to $700,000 to $900,000 a quarter.

<Q – Jason O'Donnell – Merion Capital Group>: Okay.

<A – Steve Fowle – WSFS Financial Corp.>: And just to follow-up, this is Steve Fowle again. Specifically, with regard, which may have been part of your question, to the Other Income line item of fee income, that was up strongly. Part of that had to with the Cash Connect accounting change, but a lot of that had to do with general Cash Connect business like insurance revenue and courier income, and we also had some benefit in a couple other smaller line items, as part of that growth.

<Q – Jason O'Donnell – Merion Capital Group>: Okay, great. Yes, that's helpful. Thank you. And then just on the one follow-up, and it looks like on the loan loss provision expense line came in below what we were projecting due to some additional reserve release activity. How should be we thinking about the reserves to loans ratio trend over the next few quarters?
<A – Rodger Levenson – WSFS Bank>: Jason, this is Rodger. Generally, I would say, in line with the comments that Mark made, that we expect the second half to look similar to the first half. So I would expect that charge-offs would be somewhere close to provision for the back half of the year, and that ratio should stay pretty close to the range that it's at right now.

<Q – Jason O'Donnell – Merion Capital Group>: Got it. Thanks a lot, guys.

<A – Rodger Levenson – WSFS Bank>: Thank you.

Operator: Thank you. Our next question comes from the line of David Peppard from Janney. Your question please.

<Q – Dave Peppard – Janney Montgomery Scott LLC>: Dave Peppard from Janney. How are you?

<A – Mark Turner – WSFS Financial Corp.>: Hi, Dave. Good.

<Q – Dave Peppard – Janney Montgomery Scott LLC>: I just want to speak a little bit towards the loan yields. You had some loan growth in quarter and the yield higher specifically in the CRE bucket. Could you speak to a little bit about how that happened and also make us comfortable with the risk profile of the CRE loans that you booked this quarter?

<A – Rodger Levenson – WSFS Bank>: So, hi, David. It's Roger. I'll speak to the activity in the quarter and let Steve touch base just a little color on why there was some impact on the yield that took it up a basis point or two. So we did have a very nice quarter in the commercial real estate space. It was a wide variety of projects across our footprint. I would tell you that these projects have a very, very strong credit profile.

And in fact, the new business that we're booking has anywhere from I'd call it a low to a mid-four kind of coupon on it for the fixed rate loans. And we're not going out--except in very limited circumstances--beyond a seven-year term, and getting comparable spreads when we do floating rates and have our customers enter into an interest rate swap. So because of the interest rate environment and a lot of liquidity out there, the real estate space is seeing some assets change hands, reprice maturing loans at other institutions, and it's giving us some very nice opportunities.

<A – Steve Fowle – WSFS Financial Corp.>: And in terms of some accounting behind the loan yields, if you look at the comparison to the first quarter, normalizing some accounting adjustments, the yield would have been essentially flat quarter-to-quarter. We talked last quarter about having depressed loan yields due to acquisition discount accretion, accretion actually turning out lower than we expected.

We got some of that back this quarter. We also had a couple of basis points in the improvement that was related to prepayment penalties that were taken into income as we collected prepayment penalties during the quarter.

<Q – Dave Peppard – Janney Montgomery Scott LLC>: So what would be your expectations for loan yields over the next couple of quarters then, overall?

<A – Steve Fowle – WSFS Financial Corp.>: Yes. We had some stability this quarter. The general trend for us in the industry has been down. It's been down very gradually for us because most of our loans are adjustable rate loans, so we're taking less pressure on loan yields than I think the typical industry player would be.

<A – Mark Turner – WSFS Financial Corp.>: And Dave, all of this would've been factored in to my earlier comment that, based on where we exited the quarter and what we see, we expect the margin to be flat to perhaps up a couple basis points in the back half of the year.

<Q – Dave Peppard – Janney Montgomery Scott LLC>: Thank you, guys, and congratulations on approval to redeem TARP.

<A – Mark Turner – WSFS Financial Corp.>: Thank you. I appreciate that.

Operator: Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Mark Turner for any further remark.

Mark A. Turner, President and Chief Executive Officer

Yes. Thanks again all for your time, attention and questions. We hope to see many of you in New York next week when we present at an investor conference there. We do have an updated investor presentation deck. And that will be posted on Monday to our websites and I think there will be some helpful information in there as well. So I encourage you all to take a look at that. Have a great weekend.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.