WSFS FINANCIAL CORP

Moderator: Mark A. Turner
February 1, 2013
1:00 p.m. ET

Operator: Good day ladies and gentlemen and welcome to the WSFS Financial Corporation's fourth quarter earnings conference call. At this time all participants are in a listen only mode and later we will conduct a question and answer session and instructions will follow at that time. If anyone should require assistance during the call please press star and then zero on your telephone. As a reminder this call is being recorded. Joining us on the call today is Mark Turner, President and CEO; Stephen Fowle, Chief Financial Officer; Rodger Levenson, Director of Commercial Banking; Richard Wright, Director of Marketing and Retail Banking; and Paul Geraghty, Chief Wealth Officer. I would now like to turn it over to our host Steve Fowle

Stephen Fowle: Thank you Bethany and thanks to all of you for taking the time to participate on this call. 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 form on form 10K and our most recent quarterly reports on form 10Q as well as other documents we periodically file with the securities and exchange commission.

Stephen Fowle: Then I'll turn it over to Mark for his comments.

Mark Turner: Thanks Steve and thanks everyone for your time and attention. We are pleased to have recorded net income in the fourth quarter of $7.6 million and earnings per share of 78 cents, which was an increase of 23 percent over the same quarter in 2011. Further, earnings per share for the full year of 2012 were $3.25 or an increase of 43 percent over 2011.

Highlights for the quarter included core revenues (that is, revenues excluding security sales, BOLI gains, and other notable items in each quarter) which were up 10 percent annualized over the third quarter. This was driven by both increased net interest income, and robust growth in fee income. Net interest income improved as total loans increased nine percent, annualized, which overcame a slight two basis point drop in our margin percentage. Core fee income was up 15 percent, driven by growth in our wealth business, which had the best quarter in its history; this was on top of trend and seasonal growth in Cash Connect revenues; and continued strong fees from our retail and commercial banking businesses, primarily from market share gains. For example, in addition to loans being up nine percent annualized, core deposits, excluding some temporary trust deposits held over year end, increased 28 percent, annualized, in the fourth quarter. While this did include some seasonal municipal deposit inflows, it also reflects strong, fundamental growth in market share.

And while we were growing valuable assets, funding, and customers during the quarter, we also began implementing a strategy to reduce our less valuable assets and funding -- thus improving the margin and ROA going forward, and improving capital ratios for future franchise-enhancing opportunities. To do this, very late in the fourth quarter we repaid 125 million dollars in older FHLB advances that were “out of step” with the funding rate environment. These advances had remaining terms of 11 to 22 months, and had a weighted average cost of 2.63 percent. The strategy was funded by reducing our mortgage backed securities portfolio by a similar amount in December and into January 2013. The loss on the extinguishment of the advances was covered by fourth quarter security sale gains, as we continue to proactively manage risk from MBS prepayments in this historically low rate environment.

Credit quality also fundamentally improved, as the ratio of Classified Assets to Tier One Capital plus ALLL dropped to less than 37 percent, that's down from over 43 percent last quarter, and a high of over 70 percent earlier in the cycle. And while delinquencies and NPAs ticked up a bit in the quarter, this was due to one credit, which we had already classified as a problem loan. Importantly, performing loan delinquencies remained at a very low 40 basis points. Therefore, due to positive overall trends in credit quality, the loan loss provision improves slightly to 3.7 million dollars as quarter. Total credit costs were 6.1 million dollars, which included the write down of one larger REO property to facilitate its sale in the near term.

Expenses also were well managed. Excluding notable items, like the FHLB prepayment cost, and a change in accounting at Cash Connect (going from net to gross on certain pass through service fees), expenses were up $711,000 or two percent in the quarter, due to normal fluctuations in things like OREO costs (mentioned earlier), professional fees and marketing costs, offset by ongoing expense management in other areas.

To conclude, we continue to see good market share opportunities. And with our significant credit cleanup in 2012; our recent proactive measures to improve the margin; our growing fee income businesses; prudent expense management; and our momentum -- which are all driven by market-leading scores in Associate and Customer Engagement -- we believe we are very well positioned for success in 2013.

Thanks again for your time and attention and at this time we'll take questions.

Operator: Ladies and gentlemen on the phone line if you would like to ask a question please press star and then one. If your question has been answered and you'd like to remove yourself from the queue you can use the pound key. Once again if you'd like to ask a question please press star and then one our first question comes from Frank Schiraldi Sandler O'Neill you line is open.

Frank Schiraldi: Good morning, good afternoon actually how you're doing.

Mark Turner: Good Frank, how are you?

Frank Schiraldi: Good thank you. A couple of questions first I just wanted to see if you could get a little bit of color on the tremendous deposit growth. I think even when you take out the seasonal growth that you highlight in the release deposit growth the core deposit growth was still seven percent link quarter. Maybe you could just talk a little bit about that and is it attrition you're starting to see some out of some other places in the footprint. And if so have you seen that ramp up recently and what are your thoughts going forward.

Rick Wright: Well we have as mentioned in the release there is some municipal deposit flow that was up that's sort of a seasonal thing in the fourth quarter. However the lines of business in the commercial and retail side of the business still have some fairly strong base core growth.

Mark Turner And, so Frank what I'd say is it's across the board in both commercial and retail we continue to take customers in our market place. And on the municipal side we've had a strong emphasis in the last couple of years on cash management and we've picked up a number of local municipalities within our market area and they have been funding accounts over the course of the last couple of years.

Frank Schiraldi: OK great and then credit, I wondered if in the past you've given some guidance on some expected credit cost in future quarters. And I wondered if you were prepared to do that, or how you saw provisioning and credit cost going forward.

Rodger Levenson: Frank, it's Roger, I would generally say that that our expectations were that our asset quality stats will stabilize at around the current levels during 2013, with the potential for some modest improvement, depending upon the path of the economy. So when we look at things, we're expecting total credit costs to improve to approximately four million plus or minus per quarter. That's the trend line, obviously, for the year, and individual quarters can be lumpy depending upon the circumstances. And certainly you know it's highly dependent upon what happens in the economy.

Frank Schiraldi: OK great, OK, and then finally I just wanted to ask a question as we look out in 2013, your thoughts generally on the margin. I would think, we're going to, as we're seeing industry wide, see some continue to compression here. I am just wondering if you believe we can hold the margin near current levels or you know what your thoughts are looking forward to this year.

Stephen Fowle: Hi. This is Steve, Frank. For the coming quarter we'd anticipate a mid single digit type lift to our margin helped by the execution of the advance pre-payment and mortgaged backed security deleverage that we talked about earlier. And that's despite margin pressure that's faced by the industry in general. We see additional upside opportunity for the remainder of the year as our balance sheet mix improves and as other tactics aimed at improving margin gain some traction.

Additionally to look at our mortgage backed portfolio, the reinvestment rates are near current portfolio yields. So we expect downward pressure from securities should be decreased. So that's why we see the trends and opportunities that we do.

Mark Turner: And that does not include any lift we would get from repaying the preferred shares not in the margin, but in overall bottom line.

Frank Schiraldi: And I guess just as you bring it up Mark is there any update there on the redemption of those shares?

Mark Turner: Yes thanks and I set myself up for that one didn't I. Yes we continue to have ongoing dialogue with our regulators. I mention at this point that -- having been with the OCC for a couple of exams now, a couple of full exams and a couple of interim exams, we're very tightly aligned with their expectations. They are obviously being very deliberate at this point in the cycle. But we would hope and certainly expect that by the reset date in January 14th we'd have something positive to report there.

Frank Schiraldi: Thank you very much.

Operator: Our next question comes from the line of Catherine Mealor with Keefe Bruyette and Woods, your line is open.

Catherine Mealor: Good afternoon everyone.

Mark Turner: Good afternoon Catherine.

Catherine Mealor: On the expense side; I know a few quarters ago you announced about four million in expense savings that you expected to come through over the next couple of quarters. How much of that have we now seen in this current quarter's run rate? And could we maybe see a little bit more coming through for the first half of 2013 thanks.

Steve Fowle: Yes, Catherine, Steve.

Catherine Mealor: Hi Steve.

Stephen Fowle: In terms of that initiative that we undertook, more than three quarters of it had already been implemented through the end of the year. So there will be very little additional that will be implemented at the beginning of this coming year. So as you look at it, I think you'd expect to see most of the impact in the run rate. As you look at fourth quarter numbers, remember that the fourth quarter shows some seasonal increases from the third quarter levels for expenses in general -- Mark referred to these fluctuations in his comments.

So if you look at this quarter, the comparison shows the seasonality, as an example, we saw about $600,000 increase from a typically low third quarter levels in marketing and professional fees. And remember this quarter we also were impacted by shift of about a half a million dollars of credit cost into expense line items. And, again, we've talked in the past that those numbers can be uneven both in amount, and geography in the income statement.

Catherine Mealor: OK that's very helpful thank you.

Mark Turner: Thank you.

Operator: Once again ladies and gentlemen if you'd like to ask a question please press star and then one. Our next question comes from the line of Jason O'Donnell with Marion Capital Group. Your line is open.

Jason O'Donnell: Good afternoon.

Mark Turner: Good afternoon Jason.

Jason O'Donnell: In looking at your average balance sheet for the quarter versus last quarter it looks like the average yield on the CRE increased 13 basis points. That's a little surprising given the pricing environment. Do you all have any thoughts around what drove the pickup there, and are there any commercial loan pre-payment penalties in there, if there's where they're housed, and if they're impacting the trend.

Rodger Levenson: Jason, its Rodger. There's a little bit of this lift from that. But there's also a little bit of lift as we've gotten rid of some problem assets in that portfolio. And we have seen some reasonably priced new business come on; as you saw there was a little bit of lift in that category during the quarter. So it's kind of a mixture of a bunch of things.

Steve Fowle: For a little more color on Roger's point about pre-payment; we had what had been a previously problem loan that was part of our acquisition that paid off during the quarter. So there was some additional acquisition discount that was brought into our margin in that line item.

Mark Turner: The only thing I'd add to that is that Steve's comments earlier about margin expectations, so that would have included, would have included knowledge of that.

Jason O'Donnell: OK great that makes sense and then just on the $12 million dollar commercial relationship that migrated to nonaccrual this quarter; I am wondering how much of the provision expense of $3.7 million this quarter is tied to that credit.

Rodger Levenson: Yes we don't get into specifics its Roger again -- it's a rule we just don't get into specifics talking about specific credits or their impact on our stats. So I'd prefer just to leave it at that.

Jason O'Donnell: OK so putting aside specifics, I guess I am just sort of wondering it is a safe assumption that your provision expense run rate would ease near term -- assuming that there's additional large non-recurring commercial relationships that sour during the first quarter.

Rodger Levenson: Yes it's very consistent with what I said to a prior question. We envision our run rate to be approximately $4 million on total credit cost -- that's provision and other credit costs -- plus or minus, per quarter for 2013.

Mark Turner: And that would be down from about six million this quarter, but obviously lots of moving parts in there.

Jason O'Donnell: OK great and then just one final question and I apologize if I missed this. But what's the expected impact in the first quarter of the restructuring that was wrapped up in January in terms of you know realized securities gains and in pre payment penalties.

Mark Turner: No more pre-payment penalties. As you recall, we have been taking gains in the securities portfolio for probably the last six quarters or so. We have been managing our securities portfolio very tightly around prepayment risks. And even where rates have been, we've had lots of benefit with what the Fed is doing in terms of their balance sheet and buying -- there have been lots of embedded gains. So we would expect in the first quarter to take some gains as well but certainly down significantly from what we've been doing in previous quarters.

Jason O'Donnell: OK perfect, thanks a lot.

And showing no other questions I'd like to turn it over to Mark Turner for any closing statements.

Mark Turner: Again I'd like to thank everybody for their time and attention. We are very pleased with the results of the quarter and the results of the year. And I think just to emphasize, accomplished a lot of great things in 2012 credit, significant credit cleanup, as well as repositioning the balance sheet for the current rate environment and helping stabilize the margin, and cutting expenses, and

we've seen the momentum as we enter 2013 in terms of market share. So we believe we've set ourselves up as well positioned for a successful 2013.

Thanks everybody and have a great weekend. And we look forward to seeing you in the near future.

Operator: Ladies and gentlemen this does conclude your conference you all may disconnect and have a good day.

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