WSFSFINANCIALCORPORATION

Moderator: Steve Fowle
January 31, 2014
1:00 p.m. ET

Operator: Good day, ladies and gentlemen. And welcome to the WSFS Financial Corporation Fourth 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. Should anyone required operator assistance, you may press star and then zero on your touchtone telephone. As a reminder, this conference is being recorded

I'd now like to turn the call over to your host for today, Mr. Steve Fowle, Chief Financial Officer. Sir, you may begin.

Steve Fowle: Thank you, Ben and thanks to all of you who have taken the time to join us on the call today. Participating with me in this update are Mark Turner, our 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 would like to take time 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 recently quarterly reports on Form 10-Q, as well as other documents we periodically file with the Securities and Exchange Commission.

Having read that statement, I will turn the call over to Mark Turner.

Mark Turner: Thank you, Steve and thank you all for being on the call.

We are pleased to report to you that, we fundamentally, we had our best full year and quarter's earnings in many years. Our earnings per share for the full year 2013 was $5.06, a 56 percent improvement over the full year 2012. And our fourth quarter earnings per share was $1.33, a 71 percent improvement over the fourth quarter 2012. The quarter included an almost offsetting amount of notable items adding $0.05 per share on securities gains, offset by $0.04 per share in costs and professional fees from positive corporate development activities.

Furthermore, as our results imply, momentum increased over the course of 2013, and we now enter 2014 on an accelerating rate of growth in loans, core revenue and earnings per share.

There were many highlights for the quarter, and I will mention several important ones here.

Our return on assets was a strong 1.09 percent; our return on tangible common equity was an impressive 14.5 percent.

Loans grew $94 million, or 13 percent annualized, in the quarter and all loan categories grew nicely. Importantly, our growth came not only from continuing to take good market share, but also we believe from an overall increase in organic growth in our markets, as the local economy appears to be modestly improving.

Both net interest income and core fee income (and therefore also total core revenue) improved at a double-digit annual rate of growth. This growth came across all business segments: including traditional banking, wealth management and our Cash Connect ATM division, as quality investments made from 2009 through 2013 in people, infrastructure, new products, services and new businesses continue to ramp up their contributions.

We are also benefiting from becoming a dominant brand in our primary markets. This is augmented by the fact that our superior, local-service model stands out, more now than ever, in the continuing market dislocation and from the reduction in other strong local banks since 2008.

Our organic growth in revenue has been supplemented by well-timed and high-quality acquisition activities. These include the purchase of Array and Arrow, a nearby mortgage banking and title insurance operator, which was consummated in the third quarter 2013. Array and Arrow deal primarily in the purchase money mortgage market. And their addition has led to both a growth in Gain on Sale of Loans and an accretion of earnings per share in the fourth quarter 2013.

Further, we just recently acquired the loans from a reverse mortgage securitization that we had a residual ownership interest in since 2002. For some background, we have owned or serviced most of the underlying loans over the past 20 years. The opportunistic price paid for this asset, the estimated excess collateral value in the loans, and the tax benefits that came along with it, have improved our net interest margin run rate; added about $10 million, pre-tax, to our bottom line since inception; will add an additional $10 million in pre-tax equalized benefits in the first quarter 2014; and is expected to add another $20 million in interest income over its remaining life. The vast majority of this $20 million should come into income over the next five years, based on the estimated average life of the underlying loans.

In terms of future corporate development activities, we are continuing to plan for our announced acquisition of the First National Bank of Wyoming Delaware, expected to close in the third quarter 2014. We are excited about this combination and the quality bankers and customers we will add. Excluding transaction and transition costs, the combination is expected to be accretive to earnings per share in its first year, and it substantially strengthens our Delaware franchise in the middle of the State, taking us from our current number six market share, to a pro forma number two market share in Kent

County, the State of Delaware's State government and other important industries.

Next, major credit quality statistics improved across the pipeline, as net charge-offs, non-performing assets, delinquency and criticized loans all improved meaningfully. This is a result of a broadly improving economy, our borrowers' improved financial health, and very active management of problem loans in our portfolio over the past two years, all paying significant dividends. Even with these improvements, we recorded a provision in the quarter that was just shy of our net charge-offs, reflecting our robust loan growth and our fair, but prudent reserving philosophy.

Expenses have been managed carefully as well. Core fourth quarter 2013 expense growth, (that is excluding fourth quarter 2012 debt extinguishment costs), was up only 3 percent year-over-year, despite WSFS growing into a much larger franchise, adding new businesses and assets, growing our revenues at a double-digit rate, substantially improving our profitability, as well as incurring the accompanying performance-based compensation.

I will turn now to comments on our outlook for 2014. With our investments, momentum and our best-in-class brand and team, we are very positive on our outlook for 2014. Excluding the pending First National Bank Wyoming transaction, we expect loans to grow at a high single-digit rate; and total deposits to return to growth at a mid-single digit rate, as higher cost deposits and single service households have been reduced substantially by this time. We expect the margin to improve slightly from the fourth quarter 2013 level, as growth in the balance sheet and improvement in the mix of assets and funding continue, offset by having to pay a bit more to grow deposits in a likely more competitive and rising rate environment. We expect these dynamics and other balance sheet management activities to drive a mid-single digit increase in net interest income. And we expect our fee-based businesses in total to continue to generate a low double-digit growth rate in core fee income. As a result of all this, our core efficiency ratio should benefit and improve slightly to low 60s percent range. Credit costs should moderate upwards a bit from the recent low levels as a result of us providing for our loan growth and our conservative expectation of loss rates returning to more normalized levels in 2014. Finally, excluding the $6.6 million one-time tax benefit recorded in the first quarter 2014 mentioned in the release, our effective tax rate should remain at around the same level experienced in the last couple of quarters.

While these are the full-year 2014 expectations, we remind everyone that, historically, the first quarter of the year tends to be our softest. Revenues, both net interest income and fee income, are impacted by the lower number of days and generally lower transaction activity in the winter months; and expenses tend to be a bit outsized relative to revenues because of the timing of salary increases and employer paid taxes.

Those are our broad expectations for 2014. Like any expectations, they are subject to a number of caveats and variables, including things we don't control. However, given our momentum and the local economy's momentum starting 2014 we are more confident in achieving our annual financial plan than we have been in achieving any budget in several years.

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

Operator: Ladies and gentlemen on the phone lines, if you'd like to ask a question, please press star and then one now. If your question has been answered, or you would like to remove yourself from the queue for any reason, you may press the pound key. Again, to ask a question, please press star and then one now.

Our first question today comes from the line of Jason O'Donnell of Merion. Your line is open. Please go ahead.

Jason O'Donnell: Good afternoon.

Mark Turner: Good afternoon Jason.

Jason O'Donnell: My first question relates to the operating expenses and specifically the reference in the release to the $684,000 in additional incentive comp expense that was incurred in the fourth quarter. Should we view that amount as non-recurring heading into the first quarter and how should we think about total comp and benefits expense in the first quarter, just given the impact as you mentioned of higher payroll tax expense et cetera.

Mark Turner: Thanks Jason. I am going to turn it over to Steve and I will add anything at the end to make sense.

Steve Fowle: Yes Jason, this is Steve. This year our incentive compensation was back ended as our performance accelerated during the course of the year. In general, some of the larger chunks of that compensation expense have to do with our performance relative to the industry. So as we move forward, I think the overall level of incentive comp is probably going to similar next year to what it is this year, but the timings probably will be spread more evenly through the year.

Jason O'Donnell: OK. But the trajectory of comp and benefit expense heading into the first quarter should be what, given the fact it looks like you are going to have some offset with payroll taxes being higher and some of this maybe just incentive compensation expense coming out, is it going to be relatively stable is that your expectation?

Mark Turner: Probably a little bit on the low end because we have accrued for the performance compensation through the end of the year and taxes related to that.

So what would negatively impacted, would be salary increases, which for us generally come in the beginning of March, Employer paid taxes getting to the maximum amounts that are due.

And as we have experienced and I have experience in recent years our performance does accelerate over the course of the year. So since our compensation, incentive compensation, is related to that performance, it tends to rise as the year progresses. I don't know that we have any more detail to give you than that and hopefully that's enough.

Jason O'Donnell: Yes, that's helpful. Thank you. And then on the – I am just switching gears a little bit with respect to the $50 million or so in C&I growth you achieved this quarter. If you could talk a little bit about how granular that growth has been, if there has been any shift in granularity in terms of what's driving your growth. And also if you can give us any color around pricing, the type of pricing you are getting these days versus say maybe where we were back just in the summer.

Rodger Levenson: Yes. Jason, its Rodger Levenson. There were a couple of larger transactions that occurred for us; one a new customer, one an existing customer who is doing some expansion. But, beyond that I would say it's still very granular growth in our portfolio coming in relatively modest chunks.

In terms of pricing competition, I would say we saw a slight decrease in what I would call the intensity of the longer term fixed rate competition that we had seen earlier in the year where we had seen very aggressive 10-year rates.

Occasionally, from time to time, we will see somebody get aggressive. It tends to be now more on a shorter and so I am talking 5-year rates in the kind of the lows 3s kind of a thing. But as you can see from our numbers, I think we have been pretty good at maintaining our discipline around pricing in the face with some of that competition.

Jason O'Donnell: Great. Thanks a lot guys.

Mark Turner: Thank you.

Operator: Thank you. Our next question comes from the line of Frank Schiraldi of Sandler O'Neil. Your line is open. Please go ahead.

Frank Schiraldi: Good afternoon guys.

Mark Turner: Hey, Frank.

Frank Schiraldi: Just a sort of couple of questions. One, I was just trying to understand the income that you're getting that's associated with the reverse mortgages. And it sounds like it – is there sort of a fixed accretion and then it just comes in over time depending on how long the life of loans are, is that the way to think about it?

Mark Turner: It's actually much more complicated than that, the accounting for reverse.

Frank Schiraldi: I figure. Yes?

Mark Turner: Yes. The accounting for reverse mortgages is pretty much a fair value estimate, taking the expected cash flows out to the borrowers for the obligation you have to make monthly payments, lining those up with the expected cash inflows which come – when there is a maturity event which is when somebody dies or permanently moves out of their house. For these loans, which are uninsured, the house essentially reverts to us and therefore when it is liquidated, or is sold the cash comes to us.

Present valuing all that back to a current book balance and then a change in book balance from quarter-to-quarter depending on your changing expectations; and your changing collateral values or the cash flow you've experienced, results in the quarterly earnings.

With respect to the asset, as I mentioned for the rest of its remaining life, the cash that we expect based on the collateral value with underlying loans, which is based on BPO's or broker price opinions done in the fourth quarter of last year plus the cash we got from the securitization. When it was collapsed, are about $20 million in excess of the estimated obligations that we have. And we believe if our assumptions hold up, that $20 million will come into income over the next five years, which is our best estimate of the remaining life of these loans. Five years is consistent with the actuarial tables; the average age of the borrower is 92. If you look it in actuarial table that would say that they would be expected to mature in about five years on average. So – That $20 million would probably come in on a declining basis with so more upfront as the balance decreases over time.

Frank Schiraldi: OK. But as you noted, though, it can be volatile quarter-to-quarter, so..

Mark Turner: It can be volatile quarter-to-quarter. To the extent the housing prices increased it would be more, to the extent housing prices decreased it would be less.

Frank Schiraldi: Right, OK. And is that sort of that $20 million over five year's life and sort of decreasing over time. Is that your NIM expectations for next year --is that sort of how the way you are looking at it roughly -- this year I should say?

Mark Turner: Yes we've done our best at estimating what part of that $20 million will come into in the NIM next year.

Frank Schiraldi: Got it, OK. And then just more broadly, I wonder – just looking at the local economy, the local footprint -- how would you categorize the momentum? Are there reasons to suspect that we're going to see stronger recovery there compared to the broader Mid-Atlantic or is it sort of – are your thoughts sort of on par for the recovery? I just wanted to get a little more color maybe on momentum in the local economy?

Mark Turner: Yes, we – over the last –I'll have Rodger comment because he sees a lot more of the landscape than I do personally given that his commercial customer base tends to touch a broad part of the economy--over the last several months we've definitely noticed a change in attitude and conversation as well as the actual data points in investments.

Employment's picked up, housing activity and prices have picked up, state GDP has picked up, and as I mentioned, conversations with community leaders, business leaders, borrowers have turned much more optimistic. I think some of that can be attributed to the fact that Delaware was later in and it's now later out. But our later out now is accelerating where maybe some other states that are driving national averages had experienced some pickup earlier than we did.

And also we've had a fair bit of positive news in terms of employment and expected employment, especially in financial services and construction, especially further down the state which was deeply hit in the last housing bust. Rodger?

Rodger Levenson: I would just augment what Mark said in that, certainly, over the last three or four months, the tone and tenure of the conversations we are having with customers and prospects is generally more optimistic, generally talking about expansion; buying some equipment, expanding lines of credit, those kinds of things.

I want to say that it hasn't materially impacted our loan growth yet other than we had couple of customers take advantage of some opportunities. But it certainly feels as though (and again this is obviously subject to the continued trajectory of the economy), it feels as though people are shifting a little bit more into expansion mode.

Frank Schiraldi: OK, great. And then I guess just finally, Mark, I think you have touched on already, but the dislocation in the market that your footprint has experienced one large deal in particular, it seems like there are still some pretty good tailwinds there. Is that the right way to think about it?

Mark Turner: So when that one big transaction you are referring to happened over three years ago, perhaps we were naïve thinking there would be a lot of business that would come to us quickly. As it's turned out, we are getting a lot of business from that and from other large situations in and around our markets, but it's coming more as a level flow over time, primarily as commercial customers don't have the same experience they had at their prior institution and they are looking for a local high-service banking provider we are really the only one of size and sophistication left and we have a very good team and very good brand in the marketplace and they are turning to us.

So, it's been slower and longer to play out than we expected, but it still is continuing to play out. And especially as other large organizations--and this happens routinely--get distracted, regional and national players get distracted by other things, whether it be an acquisition or revamping of their branching model or a reorganization, just take our eye off the ball here.

And, as we say, we are the team that wakes up every day and says we've got to win Delaware. None of the other large competitors that control majority of the market share in Delaware wake up and say that same thing.

Frank Schiraldi: Great. OK, I appreciate it. Thanks guys.

Operator: Thank you. And again, to ask a question, please press star then one. Our next question comes from the line of Damon DelMonte of KBW. Your line is open. Please go ahead.

Damon DelMonte: Hey, good afternoon. How are you?

Mark Turner: Good afternoon, Damon.

Damon DelMonte: My first question, Mark, in your guidance on the margin, is that assuming the – you may have said it's the Frank's question before I just wanted to clarify--the guidance of slightly above its fourth quarter level, that's including the impact from the reverse mortgage securities, right?

Mark Turner: That is. And just point out again, that's for the full year. The first quarter we probably expect will be flattish and maybe even a little bit down just because of the number of days.

Damon DelMonte: The day counts. Right, OK.

Mark Turner: Yes.

Damon DelMonte: And then with regards to the credit trend, you indicated that the provision level probably will be a little bit higher. What do you look at like for your annual net charge-off expectations?

Steve Fowle: Yes, let me, Damon, provide a little bit of color on both of those fronts. So, this year total credit costs, quarterly, were right around or just under $2.5 million per quarter. And, as Mark said, we think that will go up modestly at this point. The range we expect it would be between $3 million and $3.5 million per quarter, approximately 30 basis points on assets.

Mark Turner: And that is – that's total credit?

Rodger Levenson: Total credit costs.

Mark Turner: Including provision or foreclosure or workout?

Rodger Levenson: Right. And that as Mark said --obviously a chunk of that is to support the loan growth that we anticipate as well as a more normalized loss rate. We are anticipating that charge-offs will be slightly below the provision piece of that. In terms of just giving you a range on provision within those numbers, we look at it as provision will be somewhere between 30 and 35 basis points on loans and that charge-offs would be a little bit less than that.

Damon DelMonte: OK, that's helpful. Thank you. And then I guess just kind of a bigger picture question on the loan growth is there one or two loan categories that you feel are offering the best opportunities right now or do you think it's just going to be kind of broad-based growth throughout the entire portfolio?

Rodger Levenson: I think we will continue to see C&I certainly lead the way, but we had a very nice year in our real estate businesses and we are starting to see some opportunities even within the construction piece of that. So we would anticipate that business to perform well and we would anticipate the rest to be fairly broad-based across all of our wholesale and customer businesses.

Damon DelMonte: OK, that's all that I have for now. Thank you very much.

Mark Turner: Thank you.

Operator: Thank you. And with no further questions in queue, I would like to turn the conference back over to Mr. Mark Turner, CEO for closing remarks.

Mark Turner: Thank you very much and again thanks everybody for your time and attention today. As I mentioned, we are pleased about what we have reported. We still have more work to do to reach our goal by the end of 2015 of returning 1-20? to 1-30 on assets, but we are starting from a great fundamental base and we have got the team, the brand and the market to do it from. So we are looking forward to executing on that goal. Have a good weekend.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of your day.

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