

WSFS FINANCIAL

**Moderator: Stephen Fowle
October 31, 2014
1:00 p.m. ET**

Operator: Good day, ladies and gentlemen. Thank you for standing by and welcome to the WSFS Financial Corporation third-quarter 2014 earnings conference.

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 like to turn the conference to our host, Mr. Stephen Fowle, Chief Financial Officer. Sir, you may begin.

Stephen Fowle: Thank you, Eric. And thank you all for taking the time to participate on this call with us. With me today on the call are Mark Turner, our President and Chief Executive Officer; 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 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.

With that statement having been read, I will turn the call over to Mark Turner.

Mark Turner: Thanks, Steve. And thanks everyone on the call for your time and attention.

WSFS reported net income of \$11.4 million, or \$1.23 per share, in the third quarter of 2014. Excluding securities gains; and excluding notable expenses for expected merger costs and ongoing litigation costs and a small amount for fraud-related costs, (which was largely from breaches occurring at local and national retailers), net income would have been \$13.8 million, or \$1.48 per share.

As our Company has grown and diversified substantially over recent years, there can be a meaningful amount of seasonality in our results, especially our fee-based businesses. So the most comparable quarter would be this same quarter last year. Last year, we reported \$1.54 in earnings per share in this quarter, which included securities gains and a one-time gain on a consolidation of a reverse mortgage securitization. Excluding these items, EPS would have been \$1.26 per share this quarter last year.

So factoring out most of the noise in each quarter, we continue to show a strong double-digit growth trend in both sustainable earnings per share and return on assets. I will speak more to our return on assets trend and our strategic plan targets later.

Other highlights for this quarter and some forward-looking expectations include -- we successfully closed the FNB Wyoming merger transaction on September 5, adding many new good customers and a couple hundred million in valuable loans and deposits on day one.

The transaction had a de-minimis impact on tangible book value per share, and we continue to expect strong earnings per share accretion, given the price paid and the synergies available to us in this in-market deal.

We increased core revenues after factoring out securities gains and one-time gains at a 10 percent rate year-over-year. This was on the back of net interest income that grew 10 percent and a margin that grew by 12 basis points over this time last year. And even without one-time fee accretions, margin dollars and margin percentage grew solidly. Revenue growth also came on the strength of core fee income that rose nine percent over last year. Our Cash Connect ATM division, Wealth Division and our Array and Arrow Mortgage and Title units continue to perform very nicely and provide strong returns for us despite ongoing investments to support their robust sales growth and the upfront costs for the introduction of new products and services. We organically increased deposits three percent in this quarter. That excludes acquired deposits and most of this growth was in “core” (or non-CD) deposits, including typical seasonal municipal funding.

And while loan balances were up from the acquisition, organic loan growth was a challenge for us this quarter. This was a result of a large payoff on a continuing relationship mentioned on this call last quarter; some large payoffs and pay downs of problem loans, (which, of course, is a good thing); and a seasonally slow summer loan origination period. Our commercial loan pipeline did not start building again strongly until after Labor Day. I'm pleased to let you know that the loan pipeline is now back to previous high levels at over \$125 million in expected closings in the next 90 days. We therefore believe we will return to achieving our longer-term expectations of a mid- to high single digit annual organic loan growth.

Credit quality continued to improve, with non-performing assets and classified assets down. Non-performing assets now represent less than one percent of assets, a level not seen since before the financial crisis in 2008. Moreover, about one-third of the items included as NPAs are loans which are regularly paying and are accruing, and classified as TDRs. Delinquency was up as a result of one relationship that is in a highly seasonal business that has shown the same delinquency pattern in the past and is well secured. Absent that one relationship, which, of course we are managing closely, delinquencies improved as well. Reflecting our better credit quality, total credit costs, (which include provision, OREO and work-out costs), were less than \$1

million this quarter. We would expect total credit cost to be in the \$2 million range next quarter but as we witnessed this year, in a positive way, credit cost can be uneven from quarter to quarter.

As mentioned, merger, integration, litigation and costs from fraud at retailers were heavy in the quarter. We expect these costs will be much lighter in the fourth quarter and beyond.

Finally, our earnings in capital continue to grow. And to flexibly manage our capital, improve our return on equity and return even more value to owners, in mid-September we announced a 25 percent increase to our cash dividend, and a five percent share repurchase authorization. The share repurchase authorization is full and open when we come out of our traditional earnings blackout period in a few days.

I'll end my comments with the following fuller context of recent history, this quarter and our near-term return prospects as we see them today.

As many of you know and as we publish quarterly in our investor presentations, ending in 2012, and coming out of the hardest part of the cycle and a period of intense investment in our franchise, we established a three-year strategic plan. This included our goals and a path to sustainably high-performing status, which we define as, for the type of business we do and the risks we take, achieving at least a 1.20 percent ROA exiting 2015. Beginning that Plan, we reported 91 basis point ROA in the first quarter of 2013; but we more normalized that to 70 basis points once we took out securities gains and adjusted credit costs up to our higher long term industry expectations.

Last quarter, halfway into the Plan, we reported an ROA of 1.12 percent but similarly normalized that to a more sustainable ROA of 1.03 percent. This quarter, we reported an ROA of 99 basis points but after normalizing credit costs up to our expected long-term rate, and backing-out large notable costs, we believe our more sustainable ROA this quarter to be 1.07 percent.

So seven quarters into our 12-quarter plan, at 1.07 percent we are slightly ahead of plan for our goal. We expect the fourth quarter will show some

boost to this normalized ROA metric as we get a full quarter's benefit from the recently closed merger, and the fourth quarter is typically seasonally stronger. We understand the last basis points are the hardest to achieve in any goal. However, we have good momentum and pipelines in our businesses and with the local economy strengthening a bit, and our prominent position in our markets, and our award-winning associates and service; we are very focused on achieving our strategic plan goals.

Thank you and at this time we'd be happy to take your questions.

Operator: Ladies and gentlemen, if you have a question at this time, please press the star then the one key on your telephone keypad. You may remove yourself from the queue at any time by pressing the pound key. Again, to ask a question at this time, please press star then one on your touchtone telephone.

And our first question comes from Catherine Mealor from KBW. Please go ahead.

Catherine Mealor: Wonder if we could talk about the margins first. If we back out the four basis points of impact from the prepayment piece that you mentioned, Steve, in your press release, we're kind of at this 3.69 percent level. And so from there, how should we think about the margin? Do you still believe there's an upward bias to the margin with your balance sheet remix strategy?

Stephen Fowle: Yes, thanks, Catherine. This is Steve. You're right in terms of how you're looking at the margin, a more normalized number being in the high 360s.

Over the past quarter, we continued to position our balance sheet to become more asset sensitive. I believe that that may pause our upward momentum in margin so that, as we move to the end of the year, you'll probably see our margin holding steady at about where it is. And for the longer term we'll be giving some more guidance later. But, again, we will be continuing our focus on strengthening our balance sheet towards better yielding assets and more stable core funding.

Catherine Mealor: OK.

Stephen Fowle: I do want to say, though, that I do expect increased margin volatility due to both our reverse mortgage assets and the acquired loan portfolio.

Catherine Mealar: That's great. OK. And then (inaudible) plans for further reductions in borrowings moving forward?

Mark Turner: So, Catherine, could you say that again? There was a little static at the beginning of your question.

Catherine Mealar: Oh, excuse me. Just wondered if you could remind us of any plans for further reductions in borrowing. You had -- looks like your -- FHLB borrowings came down this quarter.

Mark Turner: Yes. No, I think that was a result of just normal business volatility, the closing of the acquisition, the seasonal municipal funding coming in. So there's no plan for reduction in additional borrowings.

Catherine Mealar: OK. And then one last question, on cost savings regarding the FNB Wyoming deal, can you remind us on the timing of how you plan for those cost savings to come through earnings over the next couple of quarters?

Stephen Fowle: Yes, I'd anticipate most of the cost savings we're getting pretty much right out of the gate. We closed branches as we actually did the acquisition. And we very quickly right-sized the balance sheet and took lower yielding, more liquid securities that weren't necessary off our balance sheet out.

So I -- and the associate changes went along with that. So I'd expect most of those savings will be right out of the gate. Now, I say that with an asterisk because, of course, we do have transaction-related expenses. We quantified those for this quarter. We'd expect next quarter to still have transaction-related expenses running probably at about half the level we saw this quarter.

Catherine Mealar: OK. Perfect. Thank you very much.

Mark Turner: Thank you.

Operator: Jason O'Donnell, Merion Capital Group.

Jason O'Donnell: With respect to your loan growth guidance, are you calling for mid- to high-single digit organic loan growth for the fourth quarter? Or is that for the full year 2014?

Rodger Levenson: Hi, Jason, it's Rodger. That would be for the full year. I'm sorry, excuse me. For the fourth quarter annualized.

Jason O'Donnell: OK.

Rodger Levenson: Excluding the impact of FNBW. Sorry about that.

Jason O'Donnell: Sure. No problem. So annualized fourth quarter. Got it. Organic. And then on the -- with respect to just kind of digging into the margin thought process a little bit more. In terms of the average loan, can you just tell us what the outlook is for the average loan yield excluding the impact of prepayment penalties and the number of days? Have you all seen greater pressure on new loan pricing recently? Or has pricing pressure remained unchanged?

Stephen Fowle: Yes, Jason, this is Steve. I'll talk a little bit about big picture, what we're seeing, throw it over to Rodger to talk about the competition and what we're seeing there.

Obviously, we disclosed some prepayment fee income we took through the margin this quarter and we do see some noise from quarter to quarter. As I look at the three periods we reported, our loan yields more normalized for some of those big volatility items, was pretty steady, trending slightly downward -- only very slightly.

And as we look at the larger loans we put on the portfolio and the ones that paid down and paid off during the quarter, they came at -- what came on came on at about the same yield as what was paid down and paid off. So we've approached equilibrium on the loan yield pricing. So I'd expect that to be stable as we move forward, ex, obviously, the fee volatility.

Rodger Levenson: Yes, Jason, this is --

Jason O'Donnell: Wow, OK. Great.

Rodger Levenson: -- the -- yes, this is Rodger. Just to add to that. So I would expect -- we are still seeing intense pressure from a pricing standpoint for commercial loans. Fixed rate loans generally now five and seven years come in at around four percent and variable rates can be below that.

So we may see commercial loan yields drifting down just a little bit. But as Steve said, for the most part what's running off we're replacing at pretty close to those levels.

Mark Turner: And so what I'd add to that is I think where the competition is affecting us most is in volume. So we would probably have stronger loan growth, given our market opportunities, than we're showing now, were it not for the intense pricing pressure. Some of which we're just willing to let those deals go because they don't make long-term sense for us.

So giving a little bit up on volume to maintain the margin but still able to get, as we said, high single-digit loan growth, with a little bit of volatility from quarter to quarter.

Jason O'Donnell: Great. That makes sense. Thanks a lot, guys.

Mark Turner: Thank you.

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

And our next question comes from Frank Schiraldi from Sandler O'Neill. Please go ahead.

Frank Schiraldi: First, Mark, I think you might've sort of answered this already in the end of your prepared remarks. But you talked about the pipeline refilling. How

much of that is a function of improving demand in the footprint? Or does it mostly continue to be a zero sum gain where you're taking away from other banks?

Mark Turner: Yes, so I'll let Rodger answer that question.

Rodger Levenson: Yes. I would say the majority of it, Frank, continues to be taking market share. We are seeing selected investments by existing customers. But the majority of that pipeline is taking market share.

Frank Schiraldi: OK. And then just now that FNB is closed, if you could just talk about your appetite for further deals. Is there (still good) opportunities? Or have we gotten a bit frothier? It seems like there's been an uptick in pricing of deals more recently.

Mark Turner: Yes, so I will say that there continues to be a lot of market activity. And the number of either calls we get from other institutions or from investment bankers has certainly been on the increase.

But I just want to put this in context as to how we approach these type of opportunities. In the last seven years, we've done four small but meaningful and quickly accretive and high IRR in-market acquisitions.

We have looked at a lot of things but turned down many. Including many because they didn't fit with our strategy, many that didn't fit with our pricing discipline, and some that frankly were just -- you put in the too-hard column.

So I would say given our strategic and fiscal discipline as well as our desire not to be distracted from our significant organic growth curve that we're on, likely you'll see us being infrequent participants in M&A situations. But when we do, I think they'll be very compelling.

And our focus has been and will continue to be primarily on negotiated situations versus participating in broad auction processes where frankly we spend a lot of time and we find that we don't wind up winning because there's always somebody in there that has a stronger currency than you, or more

synergy opportunities, or just a bigger strategic appetite for growth that will bid it up to a point where it just doesn't make sense for us.

So infrequent but good participant is how I categorize our approach to this, given our discipline.

Frank Schiraldi: OK. In terms of geography there, -- would the focus be on Southeastern Pennsylvania in terms of looking at potential deals to build out that part of the franchise?

Mark Turner: So we would always look, certainly, within our footprint -- anything within our footprint. Or nearby adjacent footprint where we're already doing commercial business, already our brand extends just because of the natural traffic patterns.

And Southeastern Pennsylvania would be characterized as being strongly in that camp. Our brand is already up there. We have eight locations. It travels well up there. And we're already doing significant business on the commercial side up there as well, and Array and Arrow and the wealth business that we're doing up there.

So that would be a natural extension for us. And one where we believe our brand and business model would play well. There are also a number of smaller banks up there. More so than what's left in Delaware or Northeastern Maryland, which might be the other two places we're both in and currently looking.

So I think just as a function of supply and demand as well as what fits with us, that would be where we're looking on a more interested basis than other places.

Frank Schiraldi: Great. I appreciate the color. Thanks.

Mark Turner: Thank you.

Operator: And I'm showing no further questions at this time.

Mark Turner: OK. Well, again, thank you, everybody. We appreciate your time and attention. We, as normal, will -- after these calls -- will be on the road quite a bit. In fact, I think in the next two weeks we'll be on the road three times.

So we look forward to catching up with many of you there and continuing to talk about our good story. Have a great weekend.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you for your attendance. You may now disconnect. Everyone have a great day.

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