

WSFS FINANCIAL CORPORATION

Moderator: Stephen Fowle
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1:00 p.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the WSFS Financial Corporation fourth-quarter 2011 earnings 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 reminder, this conference call is being recorded.

I would now like to introduce to your host for today's conference, Stephen Fowle, Chief Financial Officer.

Stephen Fowle: Thank you, (Jevon). Thank you all for taking the time to participate on this call. With me today is Mark Turner, President and CEO; Rodger Levenson, Director of Commercial Banking; Rick Wright, Director of Retail Banking; and Paul Geraghty, Chief Wealth Officer.

Before I turn the call over to Mark for 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; changes resulting from our participation in CPP, including additional conditions that may be imposed in the future on participating companies; 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 day 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.

Now, with that read, I will turn the call over to Mark Turner for our opening comments.

Mark Turner: Thanks, Steve. Thanks, everyone, for your time and attention. I have about 10 minutes of opening comments, and then we will take all questions. We are pleased to report earnings in the fourth quarter of \$6.8 million or \$0.63 per share. This capped a year where net income increased 61 percent to \$22.7 million and earnings per share increased 56 percent to \$2.28 per share. After an essentially breakeven year in 2009, the bank has shown nice increases in profitability in each of the last two years, and there is much more room to improve.

Earnings in 2010 and 2011 could have been even greater, but we chose to strategically focus on franchise investments in a once-in-a-lifetime period of market disruption. Among other things, in the last two years we have grown our commercial lenders 40 percent; added, relocated, or renovated over 40 percent of our branch network; significantly grown our Cash Connect ATM services business and Cypress Capital, our registered investment advisory business; and completed the successful integration of Christiana Bank and Trust, adding great leadership platform and brand in trust services.

Those investments are bearing significant fruit. To that point, total customer funding was again up strongly in 2011, growing 10 percent and propelling us into a solid number three market share position in our primary market of Delaware. Moreover, core deposits were up 17 percent from prior year levels. Total loans were up 5 percent for the year, but more importantly, our most profitable segment, C&I loans or loans to operating businesses, where we almost always get full relationships, were up 18 percent in the year. This continues to improve our portfolio mix and risk profile, as stressed construction loans and lower-margin residential mortgages have played a lesser role in our balance sheet and earnings stream.

Fee income, excluding securities gains and losses, was up 15 percent this year, from the sheer growth in our number of customers and from new fiduciary services. Fee income now solidly represents about 1/3 of total revenues. As a result of all this, total revenues increased nearly \$19 million in 2011, or 11 percent, well above peer averages. Furthermore, in 2011, deposits, core deposits, loans and C&I loans all showed their best period of growth in the fourth quarter, with much of that loan growth coming late in the fourth quarter. And Christiana Trust had the best year in its history, with revenues up 15 percent in 2011.

This all bodes well for 2012. Based on our investments, recent trends and pipeline, absent unusual shocks, we expect 2012 will show mid-to high-single-digit growth in loans and deposits, and slightly better than that in normal fee income growth. Importantly, our net interest margin percentage has held steady even in a tougher rate environment, as we have been able to mitigate falling asset yields on securities with a combination of growth and

improving mix of loans and reductions in funding costs. Much of this is owed to our prominent position in our primary market, where, after years of investment and focus, we now have a full-state presence, best-in-class service and a well-known, well branded profile to compete strongly against out-of-region banks for our desired customer at better pricing.

We expect our margin percentage to remain at about at its current rate in the first quarter of 2012, reflecting these same trends, and net interest income to improve with the growth in earning assets.

Expense increases in the year and quarter were consistent with our substantial franchise growth and continued vigilant credit management in a still-slow economic environment. As indicated in the release, in the fourth quarter, expense increases were primarily due to cost from an OREO bulk sale and costs to ready other problem assets under agreement of sale for their disposition early in 2012, which sets us up nicely with some costs behind us and some momentum in the pipeline for asset disposition.

Part of the increase in expenses also came from professional fees to assist in our transition to a new regulatory framework. On this last point, we proactively engaged an experienced firm to help us adjust our internal risk rating framework to the heightened standards of the OCC and Federal Reserve, in what we refer to as our risk recalibration project. In this project, we drew a much brighter line between our pass loan grades and our criticized loan grades. We eliminated our last pass grade, which was a management-involvement risk grade which we called pass/watch. And we re-rated 100 percent of those loans under tighter definitions and assumptions. About 60 percent of these watch loans were upgraded in our new rating system and about 40 percent were downgraded.

While these watch loans had full attention of management, this project resulted in a \$67 million increase in criticized and classified loans, and that added about \$2.1 million in loan loss provision in the quarter as a result of running these changes through our loan loss model. Both the professional fees and the added loan loss provision, totaling about \$2.5 million pretax in

the quarter, were costly but, we believe, were money well spent and positioned us better in 2012.

In many other areas, asset quality showed mild to marked improvement. Total credit costs in 2011, including provision, OREO and other workout costs, were down 24 percent from last year, and in the year totaled \$37 million. That is in line with guidance given throughout 2011, that these combined cost would be about \$35 million, plus or minus. Nonperforming assets improved 5 percent to \$92 million in the quarter, a little better than we expected. And that is on top of \$4 million or 4 percent improvement in the third quarter. NPAs are now 2.14 percent of total assets.

Delinquency percentage continued to be relatively low and stable. And charges-offs declined 26 percent in the quarter to \$7.1 million, and were also down 49 percent from this quarter last year. All of that combined, including the additional \$2.1 million from the risk recalibration project, led to a provision in the quarter of \$6.9 million, a small increase from the \$6.6 million last quarter which, at the margin, was primarily driven by the new loan growth, which was strong.

Absent unexpected shocks or changes in strategy, we expect to continue our 2010 trend in improvement in total credit costs – excuse me, our 2011 trends in improvement in total credit costs into 2012, and our recent trends in NPAs into 2012 as well, but caution, again, any progress can be uneven. None of the progress we have seen in 2011, in growth, in profitability, and asset quality, would be possible without our award-winning associates and customer engagement. We were again honored to be named the top workplace and the top bank in Delaware by independent surveys.

As mentioned above and in the release, 2010 and 2011 were years of both increasing profitability and very purposeful franchise investment and growth. As we begin 2012, we are now entering the optimization stage of those investments. We still expect strong, above-peer growth from that focus. But with far fewer new investments coming online to impact expenses and efficiencies, we expect greater operating leverage and profitability and continued improvement in asset quality.

Thank you and we will take questions at this time.

Operator: Thank you if you have a question at this time please press star then one on your touch tone telephone. If your question has been answered and you wish to remove yourself from the queue please press the pound key. And first up we have Michael Sarcone, with Sandler O'Neill.

Michael Sarcone: First question – I know you said continued reduction in credit costs. Is there any way you guys can provide some quantitative guidance on total credit costs for the year?

Rodger Levenson: Yes, Mike. It's Rodger Levenson. Our forecast for 2012 is that we anticipate total credit cost to be approximately \$30 million, give or take. That would be broken out – roughly \$22 million provision, and \$8 million on workout and other OREO cost. The decline obviously is a result of the reduction in our construction portfolio. And we are actually forecasting credit costs to be flat in our C&I businesses, and a little bit better in the consumer portfolios. Obviously, this is predicated on an economy that's showing modest growth and elevated unemployment to continue. And it doesn't, obviously, include the impact of any potential accelerated disposition strategies, which, as you know, we have evaluated from time to time.

Michael Sarcone: Just on the risk recalibration, do you expect any further ramifications in either classification changes or hits to the provision going forward? Or do you feel like you have taken them all in 4Q?

Rodger Levenson: We believe we have taken them in 4Q.

Mark Turner: And I would just add to that, that the loans that were downgraded were granular. It wasn't a couple big loans; it was a lot of small loans. It really had no common themes. They were across several portfolios; except the common theme was that they showed some cash flow weakness and relied on some collateral and guarantor support for ultimate repayment. Many are already in stages of repair, and with a couple more positive quarters behind them, we would expect a large percentage could actually be upgraded in 2012. On the rating class, the “pass/watch” was something that we used for many years to

manage credits on the bubble and had standing in the old regulatory framework. But our consultants advised us that we were much better off drawing a much brighter line between pass and criticized loans, and we agree.

Michael Sarcone: And, last one for me – is it possible to quantify the amount of the bulk REO sale completed in the quarter?

Mark Turner: Sure. Just to give you a little bit of detail, Mike, it was 18 individual residential properties that had a net book value at the time of disposition of \$2.4 million. And we sold them for just over \$1.7 million.

Operator: And our next question comes from Matthew Clark, with KBW.

Matthew Clark: Could you just remind us about the sensitivity of your loan portfolio to rates, now with the Fed on hold through potentially late 2014 now. Just trying to get a sense of – if you could just remind us what percent of your loan book is floating and the index that it's tied to. Just trying to get a sensitivity as to how much, if any, more yield compression we could see.

Mark Turner: Yes. To your specific question, our calculation of floating versus fixed-rate loans is about – across the board, including loans that are hybrid and the nature of their pricing, about 75 percent to 76 percent of our loans are floating rate and about 25 percent are fixed. Obviously, the Fed's announcement the other day that rates will be low for a long time, I think, at some point will catch up to banks.

We think we are relatively well-positioned and we think we are well-positioned for the following reasons. One, over the last year we've significantly reduced our asset sensitivity. So now we are only slightly asset-sensitive. We still believe we have more room to improve on deposit costs and on wholesale funding costs. We have over \$100 million of advances, that are repricing in the next 6 months from an average rate of about 3.1 percent. We have, obviously, growth in loans and an improving mix, -as I talked about in my comments,-of our earning assets.

And beyond that, for a bank our size, and certainly a bank of our history, we have a very strong profile in fee income. About 1/3 of our total revenues comes from fee income.

Matthew Clark: But those loans, I guess – can you give us a sense for what they are tied to? Is it something that adjusts monthly? Or whether or not those – and whether or not you're – do you have to – are you doing with borrowers that come back and say, I want 3.5 percent, and whether or not that can happen or not?

Rodger Levenson: Yes. It's Rodger Levenson again. The significant majority of our floating-rate commercial loans are tied to WSFS prime, not Wall Street Journal prime. You may recall several years ago, when the Fed Funds rate went down and Wall Street Journal prime went down to 3.25 percent, we did not. We kept it at 4 percent. That generally has not had a significant impact from a customer pushback standpoint, and we continue to get pricing based on that even to today, at that level or some margin above that. That's the vast majority of what we're doing, particularly in the C&I world.

Matthew Clark: OK, great. And then, finally, on the regulatory consultant, can you give us a sense for whether or not you believe their – obviously, you are not alone going through this transition but just trying to get a sense for whether or not there is any additional expense that might be associated with enhancing processes, procedures, infrastructure to deal with the OCC, going forward, whether or not you believe that there could be some or not.

Mark Turner: I'll answer that question generally. We put a ton of work in, prior to the change in regulators to add people, positions. And obviously, it's related not only to regulatory change but the economic environment, as well as Dodd-Frank and new systems. So going into it, we believe we are very well prepared. We believe engaging these consultants, and the work we did with them was kind of – I don't want to say icing on the cake, but certainly at the tail end of it. We will expect probably to use them a little bit more into the first quarter of this year, but not nearly as much as we did the latter part of last year. And we have a few changes to make here and there, yes. I think the resources that we have already put on board can accommodate them nicely.
Steve?

Stephen Fowle: I'd agree that most of the work was done in the fourth quarter.

Operator: And our next question comes from David Peppard, with Janney Montgomery Scott.

David Peppard: I just want to follow up on your earlier comments regarding loan growth. Could you maybe talk about what's in the commercial pipeline now? And also when we will see less of a drag on the runoff from residential mortgage and construction loans?

Rodger Levenson: Hi, David, it's Rodger. Our pipeline – as Mark said, we had a really good last few weeks of December, and closed several very significant transactions for us. So our pipeline is a bit lower than it has been. That 90-day weighted average is around \$100 million right now, which is a little bit lower than when we were carrying it most of last year. But as we have said before, and as Mark said in his comments, we really expect that to be the driver of our growth this year. We think that it will be, maybe, a little bit lower level than last year because of the economy and some competitive pressures, that it will be the driver.

And we really think we have that the bottom on the runoff of the construction portfolio. We are starting to see some small but nice opportunities to do some commercial construction, so we are forecasting a little bit of growth there. And we're essentially forecasting that our consumer businesses will be flat this year. That's versus a runoff of almost \$60 million last year. So put all those things together, and that's the high-single-digit forecast that Mark referenced.

David Peppard: And on the deposit capture side, I know last quarter you said you hadn't, but have you started paying interest on your business deposits? Or is there anything you are entertaining in order to capture more market share?

Rodger Levenson: We haven't done that yet. We're kind of waiting and watching to see what others might do. We don't think it's critical for the majority of the business that we do, because most of our business deposits are tied to the C&I relationships that we are bringing over.

Mark Turner: And we haven't seen pressure on the marketplace on that either, David.

David Peppard: But it is something you would entertain to defend your share, or grow your share, if need be?

Rodger Levenson: Sure, if need be, absolutely.

David Peppard: And my last question, I guess, for you guys is an update on TARP repayment plans.

Mark Turner: Yes. We have recently begun very – and I want to stress very, very preliminary discussions with our regulators on this. So, given the very, very preliminary nature of that, at this point we are discussing just process and expectations. There really isn't much to report. We will keep you updated as there is something more meaningful to report. The only thing I will say is, just to reiterate, that our goal is to do it without impacting common shareholders and to do it in a prudent way. And that suggests that doing it in tranches over time, hopefully before the reset date, which, for us, is first quarter of 2014, would hit.

So that's where we are at this point. As I said, we will keep you updated as there is a meaningful development, and in a time and forum, obviously, that's fair.

David Peppard: Do the regulators appear to be responsive to a nondilutive strategy?

Mark Turner: Discussions are too early to really give anything meaningful on that.

Operator: Again if you have a question at this time please press star then one. And next on line we have Ross Haberman, with Haberman Management.

Ross Haberman: Just one follow-up regarding the prior call, a question – you guys hold a fairly large securities portfolio. Would one option be selling some of the securities in order to pay down the TARP?

Mark Turner: As you know, it's not just a cash availability issue. The criteria get at capital levels after you would pay it down, as well as asset quality trends and earnings trends and things like that, all of which we believe we have made

substantial progress on. And the trends are heading in the right direction. And also it depends on being able to show stress tests, that under increased economic stress you would still be well-capitalized even after repayment.

Again, we have done those internal analysis and all those trends, and we believe we are in a good position. But the economy is uncertain, and we are in the new regulatory framework. So we have some work to do to plow that field.

Ross Haberman: And just one other technical question – are you, at this point, allowed to pay dividend money up from the bank to the holding company?

Mark Turner: We have no prohibition against that. Obviously, that would need to go through our primary regulators.

Operator: And our next question is a follow-up with Michael Sarcone, Sandler O'Neill.

Michael Sarcone: Looking at the loan portfolio yield, it held in pretty well over the quarter, only down around 3 bps. Looks like the most compression on the loan yield came from both the resi mortgage side and the commercial side. On that – the commercial loans, is that just basically pricing pressure from increased competition, or can you speak to that?

Rodger Levenson: No, it's predominantly having to do with the portion of that portfolio that is fixed-rate. So as those loans are gradually maturing over time and either renewing or paying down, that's causing that fixed-rate portion to decrease.

Michael Sarcone: OK, and on the continued deposit cost reduction, do you expect that to primarily come just from CDs?

Rick Wright: I would say it still is possible to get it across the board. At the present time we are pricing – our street pricing is basically the same as our large competitors in the marketplace. But we do have some legacy product out there, both in the CD side and money market side that we have some room on.

Operator: At this time, I would like to turn it over to our speakers for any closing remarks.

Mark Turner: I would like to thank everybody again for your time and attention today. As always, we appreciate your interest in us and your faith in us. And we are available for calls, obviously, in an FD-appropriate way. And hope to see you as we get out and about over the next couple months. Everybody have a good weekend.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program and you may all disconnect. Everyone have a great day.

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