THE NASDAQ OMX GROUP, INC.

Moderator: Beth sellers
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Operator: This is conference # 95231736.

Operator: Good day, ladies and gentlemen. Welcome to the WSFS Financial Corporation third-quarter 2016 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 follow at that time. If at anytime you need assistance press star zero on your telephone. As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Dominic Canuso, Chief Financial Officer. Sir, you may begin.

Dominic Canuso: Thank you Kaylee, and thanks to all of you for taking the time to participate on our call today. With me on this call are Rodger Levenson, Chief Corporate Development Officer; Paul Geraghty, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; Rick Wright, Chief Retail Banking Officer; and welcoming our newest member of the management team, Patrick Ward, Market President of PA.

Before I hand it over to Rodger Levenson, 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 read, I will turn the discussion over to Rodger.

Rodger Levenson: Thank you, Dominic, and thank you to everyone on the call for your time and attention today. As Mark is traveling on preplanned business, I will be providing our regular overview comments. Mark will be joining Dominic and me visiting with investors on the road and at an investor conference over the next few weeks to discuss a significant quarter in our Company's path to high-performance. At the end of my remarks, our team will be happy to answer any questions.

The third quarter of 2016 was an important quarter for WSFS as organic loan, deposit and fee income growth was supplemented with several steps to strengthen our franchise in line with our 2016 to 2018 strategic plan. In mid-August we closed and successfully converted the Penn Liberty franchise into WSFS. We now have 28 offices in southeastern Pennsylvania, and are very excited about our prospects for future growth in this market under the leadership of Pat Ward and Brian Zwaan.

During the quarter we also announced that we had acquired Powdermill Financial Solutions, a local family office and shortly after the quarter, we announced the acquisition of West Capital Management. Both Powdermill and West significantly enhance our wealth management business.

Finally, we proactively resolved a long-standing and our largest problem loan. I will provide more details on this situation and overall asset quality in a few minutes.

WSFS recorded net income of $12.7 million and earnings per share of $0.41 for the third quarter. Excluding the $0.02 per share impact of securities gains and the expected $0.12 per share of corporate development expenses, our earnings per share were $0.51 for the quarter.

Our core net revenue grew 20 percent when compared to the third quarter of 2015, reflecting both strong organic and acquisition growth, as well as the diversity of our revenue streams. This growth was balanced as both our net interest income and fee income grew 20 percent versus the same period last year.

The quarter saw very strong growth in both loan and deposits on both an absolute and organic basis when compared to Q2 2016. In addition to the loans acquired from Penn Liberty, we saw strong organic loan growth in the quarter of 11 percent annualized. This growth was driven by our C&I, CRE and consumer loan portfolios. Our loan pipeline remains strong, and we expect loan growth in the low single digits in the fourth quarter of this year.

Deposits were also very strong and organic growth of 19 percent annualized from June 30, 2016. 10 percentage points of this growth came from low-cost relationship checking and money market accounts, with the remainder coming from normal seasonal municipal deposits, which will run off through the next several quarters. Including the addition of Penn Liberty, our total core deposits stood at a very healthy 87 percent of total customer funding at the end of the quarter, with no or low-cost checking representing 48 percent of total customer funding.

Our net interest margin was within the range of expectations at 3.84 percent, an increase of 5 basis points from the same period last year. As a reminder, this was also the first full quarter that includes the interest expense from the debt issuance in June, which impacted NIM by approximately 9 basis points. Our current modeling indicates a NIM range of 3.80 percent to 3.85 percent for Q4.

Core fee income growth was very strong at 20 percent versus the third quarter of 2015, and was driven by performance across all of our fee generating business lines. These results reflected a modest impact in the quarter from our recent acquisitions due to the timing of the closing of each of these transactions. Fee income stood at 35 percent of total revenue, and we remain focused on achieving our goal of increasing this ratio to 40 percent by the end of our 2016 to 2018 strategic plan.

Our core expenses, which exclude M&A costs, grew $6.8 million or 18 percent in the quarter, in support of both acquisition and organic growth.

When compared with our 20 percent core revenue growth, this provided 2 points of positive core operating leverage over the same quarter last year and a core efficiency ratio of 59 percent. Credit costs clearly impacted the bottom-line results this quarter, and I want to provide a bit more than normal detail about the one loan mentioned in my earlier remarks, as well as our overall asset quality.

For the last five years, our largest problem loan has been a local C&I relationship, that is in a highly seasonal and cyclical business. This customer's operations had been significantly impacted by the housing crisis, which combined with the natural impacts of weather and seasonality, negatively impacted cash flow on a consistent basis. Although it had never previously moved to nonperforming status, we did report it as delinquent in one quarter in each of the past three years.

In our judgment, although we could have continued with a long-term workout strategy, we concluded it was in the best interest of WSFS and the customer to resolve this now and be able to move forward without the workout distraction and the risk of potentially higher losses later. Therefore, we negotiated a reduced payoff to exit the relationship.

The financial impact of this decision was a $4.2 million charge-off and an incremental $3 million in reserves during the quarter. These increased reserves accounted for 51 percent of the provision during the quarter. The bulk of the remaining provision related to two relatively small loans that moved to NPA in the quarter, and risk rating downgrades of two long-standing customers that we anticipate will be relatively short term in nature.

As we have mentioned previously and demonstrated in prior years, credit cost can be uneven. Year to date results have reflected a similar pattern where our first and second quarter credit costs were lower than expected and third quarter credit costs were higher.

As detailed in the release, our overall asset quality metrics remain solid and we anticipate that we will return to our prior guidance of $2 million to $2.5

million in total credit costs in Q4. So for the full-year 2016, we expect it will come in close to expectations.

Although our bottom-line results were impacted by M&A and elevated credit costs, we estimate our core and sustainable ROA, (which excludes corporate development costs and securities gains and normalizes the credit cost to our past 15-quarter average) at 1.19 percent. We still have work to do to achieve our Q4 16 target of 1.25 percent ROA, but believe that the underlying fundamentals of our business, including strong organic growth, as demonstrated this past quarter, position us for a successful end of the year.

In addition, the early results of our recent acquisitions are slightly better than expectations and therefore we are on track to deliver very good EPS, IRR and tangible book value earn-back returns, which should provide incremental lift as we move into Q4 and 2017. Finally, as a result of our strong capital, earnings and prospects, yesterday the Board approved a 17 percent increase in our cash dividend.

With that our team will be happy to answer any questions.

Operator: At this time if you would like to ask a question simply press star one on your telephone keypad. If you would like to withdraw your question press the pound key. And your first question comes from the line of Catherine Mealor with KBW. Please go ahead.

Catherine Mealor: Thanks, good afternoon, everyone.

Rodger Levenson: Hi, Catherine.

Catherine Mealor: Hey, Roger. Roger, could you give us just a little bit of color, also, on the three NPLs that you disclosed that moved into the NPL bucket this quarter?

Rodger Levenson: Yes. So, one of them -- the largest, a little over $5 million of commercial real estate loan, and then there was two smaller C&I relationships. All local relationships.

Catherine Mealor: And were any of these acquired loans or are these legacy loans?

Rodger Levenson: One of them was an acquired loan. The other two were legacy loans.

Catherine Mealor: And as you look at your level of classifieds and potential problem credits, do you foresee another larger flow-in of credits in the coming quarters, or do you feel like the level of inflows with the C&I workout and then these were maybe a little bit elevated this quarter from what you think you'll see near-term?

Rodger Levenson: So I would say from a classified asset standpoint, our inflow has been very modest. And, obviously, the impact of that one large loan going out was offset with that modest impact of the inflow which resulted in a slight improvement in that ratio.

We did have two credits move into the criticized bucket. As I said in my comments though, those are two long-standing relationships that are having temporary cash flow issues, which we think will be resolved in the near-term future. And beyond that, negative migration was very, very modest.

Catherine Mealor: OK. Great. And another question on the Powdermill and West Capital deals. Is there any way you could quantify the impact you think that's going to have on bottom-line income or fee growth? Just to try to frame potential earnings impact there?

Paul Geraghty: Catherine, this is Paul Geraghty. First of all, both of them are mature and relatively high margin businesses, so we expect -- although relatively small compared to WSFS in total, they will be accretive from day one to the bottom line.

And we believe that both, with respect to our installed customer base, particularly commercial customers, will give them growth and will help us do a much better job holistically meeting the needs of our entire customer base, but particularly our commercial business owners who, through West, can finally receive a comprehensive planning approach from WSFS as well as using some of our legacy trust and wealth products to implement those plans, in addition to getting some new products delivered by either Powdermill or West.

Catherine Mealor: OK. So does that -- do these deals -- maybe I'll ask it another way, you talked about a low-teens organic fee income growth rates for -- as we go into 2018. So, do these deals move that into more of a mid-teens range? Or does that just really help you get there to that low-teens growth rate?

Dominic Canuso: Hello, Catherine, this is Dominic. It's a good question. To put that in perspective we can speak to our outlook for the fourth quarter, and you are correct, we do expect organic growth and fee income to be in the low-teens year-over-year.

These new acquisitions would bring that up to the high-teens for the fourth quarter. And then obviously that would be a step off point into 2017 and beyond, and also help deliver our fee mix that we are looking for, growing from the 35 percent range we are today, towards the 40 percent in our strategic plan.

Catherine Mealor: OK. That makes sense. All right great. I'll step out and let somebody else jump in the queue. I might pop back in. Thanks so much for taking my questions.

Operator: Your next question comes from the line of Joe Gladue with Merion Capital Group. Please go ahead.

Joe Gladue: Hello, thanks. Just staying on the -- I guess on the wealth management area. Could you just give us a little more color on the decline in revenues from second quarter to third quarter?

Paul Geraghty: Hello, Joe. It's Paul Geraghty again. The second quarter contains a significant slug of revenue that goes with tax preparation, which means that the second quarter for us is typically seasonally higher than the other three quarters. And I always -- when I look at our growth, I always like to compare the present quarter with the same quarter prior-year. And there I think we continue to have meaningful growth.

Joe Gladue: OK. I thought it might be the tax issue, I just wanted to be sure. Moving on, I see you put some details in the press release on the impact of accretion on the net interest margin, but I'd just like to make sure I understand how much that changed from the second quarter -- basically I think 9 basis points this quarter. How does that relate to where it was last quarter?

Dominic Canuso: Joe, good question. As we mentioned in the second quarter, the impact on the quarter of the debt raised was about 2 basis points. So it increased 7 basis points quarter-over-quarter for the full 9.

Rodger Levenson: Joe, was your question about purchase accounting accretion?

Joe Gladue: Yes. And again, I think there was some of that in the second quarter and some in the third. Just wondering how much that changed from quarter to quarter?

Rodger Levenson: So, all-in purchase accretion was 11 basis points in the second quarter and it was 15 in the third quarter.

Joe Gladue: OK. Thank you. That's helpful. Lastly, again looking back at the last quarter, I think on the last conference call you mentioned that there was I think a $35 million construction loan that was expected to pay in the third quarter, and just trying to make sure I understand the ins and outs. Did that actually occur or is that still in there maybe?

Steve Clark: Yes, Joe, this is Steve Clark. There were actually two loans that we anticipated paying off during the quarter, and in fact, they have paid off. There was approximately $40 million in total of CRE loans that moved into the permanent market during the quarter.

Joe Gladue: All right. That's all for me. Thank you.

Rodger Levenson: Thanks Joe.

Operator: As a reminder if you would like to ask a question simply press star one on your telephone keypad. Your next question comes from Frank Schiraldi with Sandler O'Neill. Please go ahead.

Frank Schiraldi: Hey, guys.

Rodger Levenson: Hey, Frank.

Frank Schiraldi: Roger, on the C&I credits you mentioned that moved -- I think you said one CRE, two C&I credits, that moved into nonperforming status. Is there any common thread between the two C&I's that went into NPA, the one that paid off at a discount in the quarter? Any common threads in terms of industry or -- and can you give us maybe a little bit more color on the two that went into NPA?

Rodger Levenson: The short answer is, no. They're really very, very discrete situations. Although they are all local they were in different parts of our footprint and the two smaller C&I loans that I mentioned was one -- they are both relatively small, I would say an operating company basically related to financial services.

And the other one was a hospitality related credit. But totally unrelated. Had nothing to do with the larger credit and the one larger real estate loan, the CRE loan that I mentioned at the beginning of my comments, was just an issue with vacancy in the global cash flow of the sponsor, and again, in a different part of our footprint.

Frank Schiraldi: OK. And where -- are these all Deleware loans or are any southeast PA?

Rodger Levenson: It's a combination -- little bit of stuff in Delaware, southeastern PA as well as northeast Maryland. All close to Wilmington.

Frank Schiraldi: Gotcha. OK. And then just if I ex out the delta in the provision versus what we were looking for, and I think about credit costs going forward that you guys outlined your expectations for 4Q, or what you're targeting I guess, it seems like on a core basis reported something close to a $0.60 number. Is that a reasonable run rate going forward?

Rodger Levenson: I think if you normalize out the one large credit situation, that gets you close to that. I think the other components of the credit costs for this quarter were kind of a mixed bag of a bunch of different things, so it's kind of hard to pin an exact impact of what kind of a normalized impact of that would be. But I think you are in the general range.

Frank Schiraldi: OK. Finally, I just wanted to see if you could remind us on your targets -- your expectations, ROA, you mentioned a little bit, the 1.25 percent. Is that of course -- and sustainable 1.25 percent ROA that you're targeting -- is that as of 4Q 2016? And then do you have an additional target out there longer-term?

Rodger Levenson: It is a core and sustainable Q4 2016, and then the only additional target we have at this point is a goal to be at 1.30 percent by the Q4 of 2018. We will obviously be updating guidance once we complete our budget for 2017 and talk a little bit more about ROA goals for next year as part of the fourth quarter conference call.

Frank Schiraldi: Great. OK. Thank you.

Operator: Stan Westhoff, Walthausen and Company.

Stan Westhoff: Good afternoon, everybody. I just had a quick question about the component costs of the transaction in the corporate development line. Can you give us a little bit extra color on what was included in that?

Rodger Levenson: So there is a variety of one-time costs that run through that corporate development line, exiting leases, payments of various contracts, including to some employees, other contractual arrangements we have. It's really broken up amongst a pretty wide variety of categories.

Stan Westhoff: OK. Actually that's all I really had.

Rodger Levenson: OK. Thank you.

Operator: Joe Gladue, Merion Capital Group.

Joe Gladue: Actually, you've answered it again, but thank you.

Operator: Thank you. And I'm showing no further questions at this time. I would like to turn the call back to Mr. Levenson for closing remarks.

Rodger Levenson: Thank you. And thanks to everybody for taking the time, as I said, Dominic, Mark and I will be out on the road and at an investor conference over the next 30 days, and we hope to see many of you during that period of time. Thanks again.

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

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