WSFS FINANCIAL CORPORATION

Moderator: Mark A. Turner
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1:00 p.m. ET

Operator: Good day, ladies and gentlemen, and thank you for standing by. And welcome to the WSFS Financial Corporation's Third 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 follow at that time. If anyone should require operator assistance during the program, you may press star then zero on your touch-tone telephone. As a reminder today's conference may be recorded.

It is now, my pleasure to turn the floor over to Steve Fowle, Chief Financial Officer. Sir, the floor is yours.

Steve Fowle: Thank you, (Huey), and thank you to all of you taking the time to participate on this call. Participating on the call here at WSFS are Mark Turner, President and CEO; Paul Geraghty, Chief Wealth Officer; Rodger Levenson, Chief Commercial Banking Officer; Rick Wright, Chief Retail Banking Officer; and myself.

Before Mark begins 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; and the costs 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 date 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 on or behalf of the Company.

With that said, I will turn the call over to Mark Turner for his opening comments.

Mark Turner: Thanks, Steve, and thanks everyone for your time and attention.

We are pleased to have reported net income of $10 million and earnings of $1.06 per share in the third quarter of 2012. This earnings per share performance was a 51 percent improvement over the same quarter last year.

Return on assets for the quarter was 95 basis points, and was our best reported performance since late 2007 before the Great Recession and Financial Crisis fully hit.

As usual, the quarter included some notable items.

The Company continued our prudent management of prepayment and extension risk in our investment portfolio; we are monetizing some premiums before they quickly prepay at par in this low rate environment. These gains resulted in 17 cents in earnings per share in the quarter, and while not fundamental earnings power, we note that the last five quarters included substantial gains from similar portfolio risk management.

The Company also realized almost $1 million in non-taxable Bank Owned Life Insurance gains--improving fee income, reducing our effective tax rate, and resulting in an improvement of 11 cents in earnings-per-share in the quarter.

Offsetting these by a small amount was our adoption of recently issued regulatory guidance on the treatment of consumer loans that have been discharged in Chapter 7 bankruptcy. This led to catch-up adjustments in incremental non-performing assets, charge-offs, and provision, and reduced earnings per share by 5 cents in the quarter. We note that the vast majority of these loans are paying and have been paying for many months after bankruptcy and, therefore, we expect the recovery of most of these losses over time.

The Industry's and our challenges from the still slowly recovering economy include loan growth and net interest margin pressure.

Our loans were flat in the quarter, but growth was masked by both the intentional sale of low-rate mortgage loans in this historic interest rate environment, and also the intentional disposition of problem assets, the spillover from the successful execution of our second-quarter's "asset strategies" program. Absent these last problem loan dispositions, loans would've grown 3 percent, annualized, in the quarter, from market share gains

as incremental borrowing from existing customers is tepid because of the economy and pre-election uncertainty. I note that our pipeline for new commercial loans is again relatively strong (our probability weighted-average, expected to close in the fourth quarter, is $100 million in new commercial loans), and, therefore, we expect loan growth in the fourth quarter to be at the low single digits annualized pace also. Rodger will have more to say about this in our question-and-answer period.

Our net interest margin and net interest income declined in the quarter, primarily as a result of corporate initiatives. That is, we estimate about 8 basis points of our 12 basis point margin decline came from the disposition of higher-yielding securities and loans in our "asset strategies" program; coupled with the senior debt raised this quarter to support the balance sheet and eventual redemption of our Preferred Shares. Each of these initiatives has had, or will have, a substantial positive bottom-line effect despite their negative margin impacts. We estimate the remaining 4 basis points of the 12 basis point decline came from normal repricing of securities and loans in this low rate and competitive environment. We expect some continued margin pressure in coming quarters as a result of these dynamics.

Beyond those notable items and challenges, highlights in the quarter were many and fundamental results were driven by vastly improved credit; fee income growth; and expense management.

Despite the minor Chapter 7 catch-up adjustments, credit metrics and credit costs improved across the board. Among other gains, from the second quarter: non-performing assets were down 8 percent to $57.1 million, (and are at a cycle low of 1.34 percent of assets); the classified asset ratio was down 530 basis points to 43.4 percent of Tier 1 equity plus the allowance for loan losses; and total credit costs (which include provision, OREO charges and workout costs), decreased 68 percent to $5.9 million. These improvements were the result of the successfully concluded "asset strategies" program, discussed extensively in the second quarter, and continued improving portfolio dynamics. In addition, our allowance for loan losses improved to 114 percent of non-performing assets.

Fee income, normalized to exclude the notable items, improved 16 percent annualized from the second quarter, and reflects higher mortgage banking income and growth in our number of customers over recent quarters. We've experienced fundamental growth in all business lines, Retail, Commercial, Cash Connect, and, especially, our Wealth division. This organic growth has been validated by recently published FDIC deposit market share results, showing we well outpaced traditional market share growth, and solidified our number three market share position in our primary market of Delaware.

Lastly, our quick-hit efficiency plan, started and discussed last quarter, continues to roll out and show strong results, with expenses down this quarter over last quarter by 3 percent, (or 10 percent annualized), and expenses were flat from this quarter last year despite heavy investment in our franchise over that time. We expect added benefits from this initiative in the next two quarters.

In conclusion, we are pleased with our results this quarter and realize the industry and we have challenges to manage through. However, we believe we have the best brand, team, and momentum in our marketplace to produce market share gains and improved fundamental performance.

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

Operator: Thank you. Ladies and gentlemen on the phone lines, to queue up for a question, please press star then one on your touch-tone phone. If your question has been answered or you wish to remove yourself from the queue, you may press the pound key. Again, to queue up for a question at this time, please press star then one on your touch-tone phone. One moment for questioners to queue.

Our first questioner in queue comes from the line of Catherine Mealor with KBW. Your line is open.

Catherine Mealor: Good afternoon, everyone.

Mark Turner: Good afternoon.

Catherine Mealor: Maybe just a quick follow-up on the loan growth. I think you talked a little bit about in your comments. But can you talk a little bit about the slowdown that we saw this quarter, core from the $22 million that you sold? Do you really think it's just that demand is slowing pre-election? Do you feel like once we get through November, you'll start to see more of a pickup in loan demand going into the fourth quarter?

And, can you talk a little bit about the pricing, too? Is part of the slowdown in loans is that you are being more conservative on your pricing? How competitive is the pricing in your markets? Thanks so much.

Mark Turner: I will have Rodger take that and then I will add any comments as necessary.

Rodger Levenson: I know this has been talked a lot about, but I would tell you it is very real, this phenomenon of uncertainty from our borrowers. I would say particularly over the last two quarters, but it really intensified this quarter around the uncertainty post-election and how that translates into their borrowing and capital needs.

The primary uncertainty obviously is around taxes and healthcare costs. Most of our customers are small business customers as defined broadly and, obviously, that impacts them significantly. So, that has been a real phenomenon and has translated into a fair bit of pay down on lines and, also, not accessing new capital for investment decisions. So, that's definitely a factor we believe, and there's also the factor of competition. Particularly price competition.

I guess where the competition is the most acute for us right now, and where we have passed on some opportunities when the pricing got too aggressive, is we are seeing a number of situations where banks in our market, particularly the larger banks, are offering long-term fixed rates well beyond 10 years, 15, 20, and even in some cases longer than that. At rates that we, obviously, feel are too aggressive for us to meet for our return thresholds.

So, those two factors really have combined to impact loan growth. All that being said I would just reiterate that we continue to see and have acquired lots of great market share in this environment. Our growth is being impacted by

some of these other factors and we feel that trend is going to continue in the fourth quarter.

Mark Turner: What I would add to that is in our loan committee and executive committee, as they meet frequently, are seeing good new credits, house credits from our larger rivals coming in and we are winning a great deal of them.

However, that has been offset by current borrowers paying down, competition from the big banks at the larger middle market segment, our purposeful shedding of problem assets to improve credit profile and credit costs, which obviously showed up this quarter, and not retaining some of the very low rate, fixed-rate mortgages that are coming on at this point. All in all, though, I think when the economy picks up, we will be very pleased with the composition of our market share and our loan portfolio.

Catherine Mealor: That's really helpful. Thanks. Maybe as just one follow on, Mark, you mentioned you had about $100 million in new commercial loans in the pipeline for the fourth quarter. At about what average rate do you feel like those loans our being put on your balance sheet?

Rodger Levenson: This is Rodger again, and this would be a broad generalized statement, but I would say, as you recall, most of our commercial loan book, 75 percent of it is floating rate off of the WSFS prime, which currently is at 4 percent. So, I would say most of the business we are booking is a bit above that rate.

Catherine Mealor: OK. Great. Thanks so much.

Mark Turner: Thank you.

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

Frank Schiraldi: Hey, guys.

Mark Turner: Hey, Frank.

Frank Schiraldi: Just a couple modeling questions first, actually. Steve, I know you guys had spoken on second-quarter call about potential credit costs going forward, and

you noted that OREO and then workout costs you expect. You said you expected it to be lumpy, but you gave guidance of $500,000 to $1 million a quarter, and I'm just wondering if that is a good expectation at this point for 4Q?

Steve Fowle: Yes. We were expecting that would probably be a good number. We had one particularly large credit that we took some extra charge that was OREO this past quarter that made that number a little higher than we expected again, that has to do with the lumpiness we have talked about.

Frank Schiraldi: OK. And I am assuming there will be no change as well to the expectations you gave on provisioning?

Mark Turner: That's right. And, I think, the provisioning number would have been right in our range had it not been for the catch-up adjustments on the Chapter 7 regulatory guidance.

Frank Schiraldi: OK. I thought it was within your range, actually, but OK. And then the expense build, sorry expense saves, again in the second quarter you'd given expectations of timing and I believe you had said perhaps $1 million will flow through in the fourth quarter and another or third quarter, and another $2 million in the fourth quarter. Wondering if you could talk a little bit about one, if that timing still holds true in terms of numbers, and secondly, just where the cost saves are coming out of, particularly in the fourth quarter?

Steve Fowle: We talked last quarter about the fact that we identified a little over $4 million in pretax benefits from the program. By the end of the second quarter--that's annual run rate--by the end of the third quarter we had about half of that already realized, already implemented.

We'd expect the remaining about $2 million to be split evenly between next quarter and the beginning of 2013 in terms of implementation dates. As I look to where they are, I'd say about half of that has to do with salaries and benefits line items and the rest is spread through data processing, professional fees, other operating expenses, et cetera.

Frank Schiraldi: OK, great. And then just lastly, I wanted to ask a question on credit. Looks like if you exclude the asset dispositions in the quarter, there were some inflows into non-accrual. I wondered if you could just talk about the level of inflows seen this quarter versus 2Q? And where those are coming? And then the size of those loans or relationships?

Rodger Levenson: And I saw in your note NPLs for the quarter went down $2.6 million. Obviously, that incorporates also the $4.7 million that we have talked about of the loans that went to NPA as a result of the adoption of the Chapter 7 guidance. So, the decrease would have been around $7 million for the quarter that was really comprised of inflows of about $10 million offset by dispositions, payoffs, collections, things of that nature of about $17 million.

And I would highlight the inflow number--that's a gross inflow number. The net inflow would've been lower when you offset some of the other things I just talked about, and there was not one individual loan more than $1.5 million. It was primarily small business and consumer stuff that is going in that, I would say, is very consistent with where we are at in the path of the economy.

Frank Schiraldi: OK, so it's not necessarily much lower or higher than that. I guess I can go back and take a look, but what you saw in Q2 in terms of gross inflows?

Rodger Levenson: I would say it's very similar or declining compared to what the pattern has been. I would also just point out, just for a point of clarification, of the $22 million of dispositions that we had in the quarter, about $12 million of that was related to a payoff of a loan that was not in the non-performing category. It was a performing loan that we were repaid at par and was included in our problem loan statistics. So, I just wanted to make sure that was clear.

Frank Schiraldi: That's helpful. Thank you. OK, thanks that is all I had, thanks, guys.

Mark Turner: The other thing I would augment that by is, generally, the fourth quarter tends to be fundamentally the slowest quarter of inflows in terms of problems just because the nature of our customers being smaller- to medium-sized private companies, they get their financial statements in to us in the second and third

quarter, and so that's when tends tend to be more identified and fall into those buckets. Obviously, we keep tab on those customers that are on the bubble more closely than that.

Operator: Thank you, sir. Our next questioner in queue is from Matt Schultheis, Boenning & Scattergood. Please go ahead.

Matthew Schultheis: Good afternoon.

Mark Turner: Hi, Matt. Good afternoon.

Matthew Schultheis: Really quick question, not sure you really have an answer for it yet. But was wondering if you can try to quantify the impact of Hurricane Sandy with regard to cleanup costs for the fourth quarter? Any impact it may have on borrowing credit metrics, borrower's credit metrics from the standpoint that somebody may have lost a key facility or something of that nature? And lastly, with the long-term implications, maybe, for loan growth as the area rebuilds?

Mark Turner: Delaware was, as the Governor said, very fortunate. We were spared the worst of the hurricane. Had it hit landfall 50 to 75 miles south, you would see pictures probably in Delaware like the ones you're seeing in New Jersey and New York. But because it went 50 to 75 miles north and we were in the southwest corner, rains were less and winds were less and it moved through much quicker than expected.

So, while there are many, you all know the numbers of millions of people still left without power, they're only about, as of this morning, 2,400 homes without power in Delaware. So, we saw rain and wind and some downed limbs and some street flooding in the lower part of the state, but there were no houses taken off their foundations and no big floods in houses to speak of.

So, we were very fortunate. Our whole branch network was back up and running by 12 o'clock yesterday. I think our situation was very similar--We've run the state from bottom to top--our situation was similar to many other businesses in the state. And the same holds for nearby Southeastern Pennsylvania, where we have our other branches and our other business

customers, and Northeast Maryland would be the same as well. So, we don't expect much of a credit or financial impact or recovery impact from the hurricane, both the depths of it and the need to recover as you would be seeing in Central Jersey and New York.

Matthew Schultheis: OK. Thank you very much.

Operator: Thank you, sir. Our next questioner in queue is from (Julie Margetch) with Janney Montgomery.

Julie Margetch: Hi. I was just wondering if you could give us some guidance about the net interest margin going forward? Do you see the margins to stay around the level we see now or do you see further compression? And also, I know you mentioned the provisionary already, but just to be clear, do you expect the provision to stay around the levels that we see now?

Steve Fowle: Yes. Hi, Julie. This is Steve Fowle again. In terms of the margin, first. Mark talked about the dynamics that hit the margin in his opening remarks. In terms of going forward, I'd expect to see continued margin pressure in the fourth quarter. The largest impact should be from our senior debt which was issued later than midway through the third quarter. That had a 4-basis-point negative impact in the third quarter, so I'd expect a similar to slightly larger impact in the fourth quarter.

We are actively managing through the tough margin and rate environment and we have a task force working to implement margin initiatives. We'll also see some benefit from about $55 million in promotional CDs with a rate above 4.5 percent that mature late in the third quarter through middle of this fourth quarter. And, $40 million in advances with average rates in the mid-2 percent that mature early next year. While there will be some continued impact from the debt offering, we're taking the steps we can to mitigate as much of the environmental pressures as we are able to.

Mark Turner: With respect to the provision, Rodger, do you want to jump in on that?

Rodger Levenson: Yes. Our guidance is the same. We would expect the range of between $3 million and $4 million consistent with what you saw this quarter, especially as

you, as Mark said, net out the impact of the adoption of the guidance on Chapter 7 bankruptcies.

Mark Turner: And just to reiterate, again, reaffirm that guidance on total credit costs, so that's provision, OREO, and other workout, in the range of $4.5 million to $5 million. In this quarter, it was $5.9 million, $900,000 higher than the high-end. About almost $700,000 of that came from the Chapter 7 bankruptcy guidance adoption and the rest was from that one OREO write-down.

Julie Margetch: Great. Thank you so much.

Mark Turner: Thank you.

Operator: Thank you, ma'am. And again, ladies and gentlemen, if you would like to ask a question, please press star then one on your touch-tone phone. Again, star one to queue up for a question.

Our next questioner in queue comes from Jason O'Donnell with Merion Research. Please go ahead. Your line is open.

Jason O'Donnell: Good afternoon.

Mark Turner: Good afternoon.

Jason O'Donnell: Thanks for taking my questions. My first question is a bit of a housekeeping item. I'm just wondering how much of your loan workout and OREO expense line is a function of OREO expense? And, of that expense figure, are there any valuation adjustments in there that are impacting the trend?

Rodger Levenson: Of the $2.1 million of expense that we had in the quarter in that overall category, right around $1.4 million, a little over $1.4 million was related to OREO write-downs the remainder would be all the other costs involved in collection. And, as Mark and Steve both said, the vast majority of that was related to one specific situation.

Jason O'Donnell: OK. OK, that's helpful. And then, can you just give us your thoughts regarding the reserve at this point? I'm wondering where you think the

reserves-to-loans ratio might settle out over the next several quarters, just given the improvement in credit quality you are seeing?

Mark Turner: Yes. We're at 1.69 now. We've said if the credit cure continues as we expect, or as everybody expects, and the economy path continues as everybody expects, given the risk profile, the business we do, settling out in the new normal at about 1.50. That's a gross, broad estimate, but that's we think at this point. Again, a lot of that will be dictated by the path of the economy.

Jason O'Donnell: OK. That makes sense. And then my final question is on the fee income side, looks like mortgage banking revenues doubled this quarter. Can you just give us an update on the gain-on-sale margins you're seeing, and whether you think third quarter revenues are sustainable heading into the fourth quarter?

Richard Wright: Our gain-on-sale continues to be strong, and one of the things that is happening now is because of all the activity, it is taking about 75 days to fund booked loans. So, we actually have a pretty clear look at the next 75 days and are comfortable that we're going to be at even a higher level for the fourth quarter on gains.

The margin, I don't know off the top of my head. I know it's been very consistent.

Jason O'Donnell: OK, thanks guys.

Mark Turner: All right. Thank you.

Operator: Thank you, sir. And there appears to be no additional questioners in the queue. I would like to turn the program back over to Mr. Mark Turner for any additional or closing remarks.

Mark Turner: OK. Thank you very much. Thanks again, everybody, for listening in and your questions. Again, we're pleased to be reporting strong numbers. We continue to see market share gains. We hope that some of the growth that we see will overshadow some of the run-off we see in quarters going forward.

And we look forward to catching up with people. We note we'll be at a conference in a couple weeks or so and look forward to seeing many of you there. Other than that, our thoughts are obviously with those people that were much more affected than we were from the hurricane and we will continue to support them in any ways we can. Take care, everybody.

Operator: Thank you, sir. Ladies and gentlemen, again this does conclude today's program. Thank you for your participation and have a wonderful day. Attendees, you may disconnect at this time.

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