

WSFS Financial Corporation

Moderator: Stephen Fowle
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9:00 a.m. CT

Operator: Good day, ladies and gentlemen and welcome to the WSFS Financial Corporation second-quarter 2010 earnings release conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session with instructions following at that time. If anyone requires assistance, please press star then zero on your touch tone telephone. And as a reminder, this conference is being recorded.

And now your hosts for today's conference are Mark Turner, President and Chief Executive Officer; Stephen Fowle, EVP and Chief Financial Officer; Rodger Levenson, EVP and Director of Commercial Banking; Richard Wright, EVP and Director of Marketing and Retail Banking. And now I would like to turn the call over to your host, Stephen A. Fowle. Please begin, sir.

Stephen Fowle: Thank you, (Tyrone) and thank you to everyone participating in this call. Before turning this over to Mark, I would like to read our Safe Harbor statement. The following discussion may contain statements which are not historical facts and are forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995.

Such forward-looking statements, which are based on various assumptions, some of which may be beyond the Company's control, are subject to risks and uncertainties 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 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 government laws and regulations affecting financial institutions, including potential expenses associated therewith; changes resulting from our participation in the CPP, including additional conditions that may be imposed in the future on participating companies; 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.

The Corporation does not undertake to update any forward-looking statements whether written or oral that may be made from time to time by or on behalf of the Corporation. With that, I will turn it over to Mark Turner for the opening comments.

Mark Turner: Thank you, Steve. Good morning, everyone and thank you for your time. I have about 10 minutes of comments before opening the call to your questions.

At WSFS this quarter, we reported Net Income of \$3.3 million and Earnings Per Share of \$0.36. After three quarters in a row of essentially break-even results, this quarter, we are pleased to show a break-out to the upside. This was driven by diligence over many months as demonstrated in continued stabilization in overall asset quality metrics, allowing positive revenue trends and our CORE efficiency initiative to finally overtake moderating credit costs.

Net revenues at \$43.1 million in the quarter were up \$2.7 million, or seven percent. This reflected continued growth in our net interest income, which was up \$1.4 million, or a strong five percent in the quarter, driven by a nine basis point increase in the margin to 3.66 percent.

Also fee income was up \$1.3 million, or 12 percent from the first quarter, driven by growth in accounts and seasonal activity. As a result of this quarter's earnings, an improvement in securities' valuations, capital grew nicely in the quarter to a 6.60 percent Tangible Common Equity Ratio, up 27

basis points and Tangible Book Value Per Share was up \$1.15 to \$35.02 at June 30.

Importantly, asset quality metrics taken as a whole showed continued stabilization. Non-performing assets were up less than \$4 million, or under five percent, to \$86 million at June 30, or 2.26 percent of assets. In addition there were about \$4 million of Other Real Estate Owned that was written down to contract price in the second quarter and were awaiting sale closing at June 30. Delinquencies at \$71 million or 2.82 percent of loans were essentially flat from the first quarter and a component of that, early-stage delinquencies, declined from \$42 million to \$25 million or an improvement from 1.65 percent to only 0.98 percent of the loans at June 30.

Net charge-offs declined significantly to only \$5.4 million or 86 basis points annualized from \$7.8 million or 124 basis points in the first quarter. Allowing the loan loss provision of \$10.6 million to decline \$0.8 million or modestly from the first quarter and the provision showed its third consecutive quarterly decline.

In summary, we showed continued stabilization in many credit quality metrics and positive earnings in the quarter despite the fact that we continue to provide well in excess of charge-offs, reflecting prudent concerns about an uncertain economy and as a result, our Allowance for Loan Losses has steadily increased to a healthy 2.48 percent of total loans from 1.63 percent this time last year.

As mentioned in the past, but bears repeating, we entered this recession with less exposure than many others to problem areas in loans, investments and other assets, but particularly in construction loans. And for over a year now, we have been aggressively adding resources to credit administration, loan review, workout and asset disposition functions, demonstrating a capacity over the last few quarters now to slow problem asset inflows and/or increase problem asset resolutions.

As one result of that work, our exposure to construction loans is now less than eight percent of total loans. Additionally, a subcomponent of total construction loans, Residential Construction and Land Development Loans or Residential CLD, the most painful asset class in the cycle, is now only \$91 million or less than four percent of total loans at June 30.

And a subcomponent of that, our exposure to Residential Construction in Sussex County, the county believed to have the most supply of new housing product, is modest at only \$33 million, or well less than 2% of total loans. This relatively prudent position is a result of good risk management, good governance and institutional memory from our own early 1990s difficult experience with real estate lending.

How did that manifest in our credit practices in this cycle? As many of you may recall, starting in late 2005, we instituted limits on construction lending in total, by type, by county and for land-hold loans a year before regulatory guidance was in place. And over a year ago now, we also aggressively scrubbed our commercial lending portfolio and added credit administration resources in what we internally called our "Goal One" Project to proactively address a rapidly deteriorating environment.

Lastly, our loss provision expectations for 2010 incorporated results of a stress test on our Commercial Real Estate portfolio. That prudence continues in our current activities and results. We incurred \$1.8 million in additional CORE costs in the second quarter of 2010 to write down assets awaiting disposition to their expected sales values. We are also affirming our previous guidance that our Loan Loss Provision for the full-year will be modestly less than the \$48 million we recorded in all of 2009.

Through the first six months of 2010, our Loan Loss Provision has been \$22 million, in line with that full-year expectation. In the second quarter, our regulator also completed our regularly scheduled and very thorough annual exam. The impact of that would therefore be reflected in the second-quarter results. There were no recommended changes to any loan ratings or loss reserves, which we believe reflects the substantial resources and attention we have dedicated to asset quality over the past year.

Furthermore, the Delaware economy has also shown some stabilization. There have been no large layoff announcements recently and there has been net job growth in the past few months across several industries. And according to the U.S. Bureau of Labor Statistics, there has been a statistically significant decline in Delaware's unemployment rate in the last few months to 8.5 percent at June 30, down from over nine percent. The Delaware unemployment rate is now significantly better than the national unemployment rate of 9.5 percent.

Importantly, in the last year, Delaware has had several what I call "quick turnaround wins." The GM and Chrysler manufacturing plants and the Valero oil refinery, which were all closed in 2009, were repurchased quickly and will be the source of new economy uses and large job growth over the next couple of years. And Sallie Mae, as it reformulates its business model, recently announced it was consolidating its Virginia headquarters into its Delaware operations, bringing up to 1500 jobs to Delaware's financial services industry in the near term. Those are all big wins for a small state.

And existing housing activity, while still low, has improved. A recent local headline read: bucking decline nationally, home sales are up across Delaware. And prices improved in two of the three counties in June of 2010 compared to June of 2009 with the third county's prices down only five percent. Some of this was of course due to the federal home purchase tax credit and it is too early to tell what impact that tax credit going away will have.

Turning to recent trends in business development, deposit growth has moderated for us, but is still healthy, up five percent on an annualized basis in the second quarter. While total loans were essentially flat in the second quarter, C&I and CRE loan growth helped almost completely offset charge-offs and planned declines in construction loans and consumer mortgage lending.

We are also seeing competition heat up a bit for lending to quality middle market companies, a healthy sign for the local economy. However, July was a very good month for WSFS writing new commercial loan business and our

pipeline is good and we expect it to grow. In addition to the quality credit administration, Associates we have attracted in the last year to deal with problem loans, since April of 2010, we have added four seasoned commercial lenders from larger local competitors. We expect to attract more lenders and customers from these competitors as a very high percent of the market share in and around Delaware are currently held by institutions that are distracted by credit issues, reorganizations or mergers.

Finally, turning to two recent announcements, we continue to be very excited about our planned acquisition of Christiana Bank & Trust as it will significantly bolster our trust and wealth management efforts. It will diversify our revenue sources, especially fee revenue and therefore improve franchise value. After transaction and transition costs, we expect the deal will be accretive to earnings per share in 2011 and we expect it to close in the fourth quarter of this year.

Lastly, as we expected, but we are still very pleased to have reported yesterday, the quick and full recovery on the \$4.5 million fraud loss our ATM division suffered in the first quarter of this year. We expect those funds will be received in early August and therefore the recovery to be recorded in the third quarter of 2010.

Thank you for your attention. With that, we would be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, if you have a question or comment, please press star then one on your touch tone telephone. If your question has been answered, we wish to remove yourself from the queue, simply press the pound key. Again if you have a question or comment, please press star then one on your touch tone telephone.

And our first question is from Andy Stapp of B. Riley & Co. Your line is open.

Andy Stapp: Good morning and nice quarter.

Mark Turner: Thanks, Andy. I appreciate that.

Andy Stapp: In your last call, you had talked about opportunities for reasonably robust loan growth in Q2, but loans were only up \$6 million on an end-of-period basis. Is this going to be a Q4 event?

Mark Turner: Rodger Levenson is here, Andy. And he is closer to the ground on that, so I will have Rodger answer that question.

Rodger Levenson: Hi, Andy. Good morning. As Mark said, a number of things that we had anticipated closing in the second quarter bled over into July and we have had a very strong month of July. I would say the pipeline behind that has moderated a little bit. There hasn't been as much economic activity from our existing customer base as we were starting to see some trends of that earlier in the year, but still a great deal of opportunity, as Mark said, in gaining marketshare from other competitors.

Andy Stapp: And you attribute that, the moderation, to a decline in customers' sentiment regarding their business prospects with some of the negative news that we have heard of late?

Rodger Levenson: Yes, I think, Andy that is a fair statement. There is a fair amount of uncertainty still out there, which is impacting customers' decisions to expand.

Andy Stapp: OK.

Mark Turner: I would add to that, Andy that our growth trends will be different than those general market sentiments just because of the pickup of seasoned commercial relationship managers that I mentioned that started in the second quarter. And we also picked up a couple actually within the last few weeks as well.

So the few that we picked up in the earlier part of the second quarter actually came in and started adding business right away. So we see significant opportunity in taking local marketshare.

Andy Stapp: Sure. Understood. And your neighbor, in their call, they talked about sharply deteriorating financial statements and appraisal data, especially in southern Delaware. Are you seeing this?

Rodger Levenson: Yes, I will take that Andy. Clearly, 2009 was a rough year for a lot of businesses, operating businesses, and real estate companies. So we clearly have seen that as we have gotten in full-year financial statements and tax returns.

On the appraisal comment, I would agree with the general statement that we have seen a decline in value, but I thought it would be helpful for you to understand our methodology on appraisals, particularly residential appraisals, because I think it would help provide some context to what we are seeing.

Each year we receive a residential construction project, and a new appraisal. When we get that appraisal, it is internally reviewed by our team and we make appropriate adjustments based on our assessment of the market. At a minimum upfront, it would get a 15 percent discount.

Then we have a process that we review those every quarter and as part of that process, many times, we are doing our own discounted cash flow analysis to supplement what was provided in the appraisal. And if we think it is appropriate, we take further adjustments. At a minimum, we take a 30 percent adjustment at the six-month mark as we move through that process.

So while we are seeing appraisals come in lower than they were last year, that doesn't necessarily provide a huge swing from where we had made estimates of the value that we were carrying those projects because we are updating them, as I said, on a quarterly basis. Generally, I would say over the past year in lower Delaware, we have seen appraisals decline anywhere from 20 percent to 30 percent on an annual basis.

Andy Stapp: This is from when to when? I'm sorry.

Rodger Levenson: A year. So it would be anytime from a year prior.

Andy Stapp: OK. And are they continuing the severity, the loss severity, has that been pretty constant or are they continuing – housing values or appraisal values continuing to erode at the same pace?

Rodger Levenson: It is essentially at the same pace. It's very project-specific. Every appraisal, as you can imagine, has many, many assumptions based on residential appraisals, based on absorption and what may happen in the future and discount rates. But as a general statement, that is accurate.

Andy Stapp: OK. And the third county that you mentioned had a five percent home price decline, was that Sussex County?

Mark Turner: For the quarter, yes.

Andy Stapp: OK. And one last question and I will get back in the queue. Could you talk about your efficiency program? Is the cost-reduction timetable in line with what we discussed last quarter?

Stephen Fowle: Hi, Andy. This is Steve. At this point, we have got about half of the benefit in our numbers already. I would expect by the end of the year we will have over 90 percent of those projects, those cost-saving projects implemented. And in fact, towards the end of this past quarter, a significant one was additionally added.

Mark Turner: And the total there, Andy, when fully implemented, we expect about \$6.8 million in improvement in annual run rate.

Andy Stapp: OK, thank you.

Mark Turner: You're welcome.

Operator: Thank you sir. Our next question or comment is from Matt Schultheis, Boenning & Scattergood. Your line is open.

Matt Schultheis: Good morning, gentlemen. A quick question for you and you probably covered this and I missed it. Plans on repaying TARP and/or as needed raising capital?

Mark Turner: Yes, when repaying TARP, the only thing I can say about that is we are getting closer. We have set benchmarks for ourselves in terms of when we thought it would be prudent to repay it of a couple quarters, a couple to a few quarters of local economic stabilization; a couple to a few quarters of our own credit metric stabilization; and a couple to a few quarters of our own earnings or internal capital generation. And clearly, we have made progress on all three fronts. So I believe we are getting closer.

We cannot comment specifically on the definitive ways that we might, for example, support the Christiana Bank & Trust acquisition only to say that we are fortunate enough to have various possibilities or a combination of possibilities, including our own earnings, funds we raised last year from private equity placement, shrinking the balance sheet. As you know, we have ample, high-quality mortgage-backed securities and also the shelf registration statement that we filed late in the second quarter.

Matt Schultheis: I think that is actually – that is it for me. Thank you very much.

Mark Turner: Thank you Matt.

Operator: Thank you sir. Our next question or comment is from Steve Moss, Janney Montgomery Scott. Your line is open.

Steve Moss: Good morning, guys. Nice quarter.

Mark Turner: Thank you.

Steve Moss: I have a couple things to ask. One, any projections with regard to the possible impact on Reg E here?

Mark Turner: Yes, we do. We have done quite a bit of analysis on that. And just to give you some numbers and we are making significant progress and have plans for making even more progress. At total, if we got nobody else, nobody to opt in for overdraft services, we have analyzed it and there are about \$6.6 million of revenue at risk on an annual basis. To date, through the end of the second quarter, we have enough people to opt in, so that number is down to \$5 million, \$5.1 million at risk.

We believe, based on the aggressive programs we have in place, which include touch points, or touching customers at all points where we interact with them based on those programs and current trends, by August 14, which is the date after which you can no longer charge existing customers overdraft fees, if they haven't affirmatively opted in, we will have about \$3.7 million at risk. And we believe by December 31, through programs after the fact, we will have only about \$1.9 million at risk.

However, we have a lot of programs in place to offset even that remaining risk and those programs would include things like a reduction in waivers and refunds. As you might expect, a big part of our waivers and refunds, prior to this affirmative opt-in, had to do with customers saying that they didn't know about the charge and would appreciate having it waived and in many cases, we did that. Those will be reduced after the affirmative opt-in. And also new products and services that we are working to implement to replace that fee income.

So while we do expect there will be a swoon, if you will, in fee income related to this as I expect will be the case in our industry, we also expect that six to 12 months from now the impact will be minimal.

Steve Moss: OK. And then also with regard to looking at the delinquent loans here, it seems like there is about \$46 million or so in the 90 day past due bucket. Assuming that is largely commercial, I guess any resolution or should we expect those to go over to nonperforming status?

Rodger Levenson: We are in the process of working through each one of those situations as you can imagine. As loans reach their maturity date, there is a fair amount of negotiation that goes on between ourselves and the borrowers, Steve. So it is hard to make an accurate prediction of how they are going to trend out. I would just say generally we are hopeful that the majority of those that we will be able to get back onto a current status.

Steve Moss: OK. And last question with regard to the margin going forward, another good quarter of margin improvement, where do you all expect that to go – to be going forward?

Stephen Fowle: Yes, hi. This is Steve again. During the quarter, our margins stayed relatively flat at the level you saw it reported for us. And our deposit funding cost improvements are more difficult to get as rates remain flat for an extended period now. So I would expect the margin to be flat to just marginally improved for the coming quarter.

Steve Moss: OK, thank you very much, guys.

Stephen Fowle: Thank you Steve.

Operator: Thank you and again if you have a question or comment, please press star then one on your touch tone telephone. We have a follow up question from Andy Stapp of B. Riley & Co. Your line is open sir.

Andy Stapp: Deposit growth was not nearly as robust as it has been in recent quarters. Do you expect it to stay at a more moderate level?

Mark Turner: I am going to have Rick comment on this, Andy. As you know, over the last 18 months, we have been fortunate enough to have kind of a torrent of deposit inflows. So to some extent, we expect at some point it would moderate and clearly this quarter it did. But Rick will give you some better indication of the dynamics in the marketplace.

Richard Wright: I would say that it is clearly moderating. We have seen about two months of fairly flat deposit growth and it is pretty consistent throughout the footprint. We have some new branches, relatively new branches that are out there that are still growing. We expect at this point about a 2% to 2.5 % increase in deposits for the rest of the year, which would be a fair amount slower than it has been in the past 18 months, as Mark has mentioned.

Andy Stapp: OK. And REO and loan workout expenses were up I think \$1.8 million linked quarter. Is this a reasonable run rate? Do you expect it to be lumpy? Just maybe you could provide some color on this.

Rodger Levenson: Andy, it's Roger. It is very hard to estimate those costs in terms of a run rate. A significant portion of them are write-downs on OREO projects and that is

highly dependent upon asset values, where we are in the workout process and other things. So I would expect it to be lumpy.

Andy Stapp: OK.

Mark Turner: I would just like to add to that though. Consistent with Rodger's earlier comment, we believe we stay on top of these issues on a very timely basis whether by taking whacks to appraisals or looking at OREO for its estimated realizable value. We try to stay ahead of the curve.

Andy Stapp: OK. And is the effective tax rate of 31 percent that you realized this quarter a reasonable run rate?

Steve Fowle: Yes, I would expect that that would be a reasonable run rate, Andy.

Andy Stapp: OK. And how big is your small business portfolio and how much are nonperformers?

Richard Wright: I will take that question, Andy. The portfolio for small business for us is about \$134 million. I don't have a specific breakout of the nonperformers here. Actually, I do have. I'm sorry. I was looking at something else. It is about \$2.6 million of that or just under two percent of the portfolio. Sorry about that.

Andy Stapp: OK. And how did your watchlist compare quarter to quarter?

Mark Turner: We don't provide any detailed information on that. We traditionally have not because it involves a lot of judgment, not only within an organization, but between organizations. But over the last four quarters, our problem loans have generally trended in line with our nonperforming assets.

Andy Stapp: OK, all right. Thank you.

Operator: Thank you and our next question is from Austin Reed of North Oak Capital. Your line is open.

Austin Reed: Thank you, good morning. Can you provide your Tier 1 common ratio?

- Mark Turner: I cannot off the top of my head, but that is certainly a number that we can provide to you, (Austin).
- Austin Reed: OK, great. I will check off-line. And then just in terms of – a related question. I know you talked about TARP repayment as getting closer. As you sort of manage your capital, are you having a lot of input from regulators on that matter?
- Mark Turner: No, we have not had discussions with our regulators on this issue because we have set our own internal performance marks on this, which I mentioned earlier and we would not be comfortable at this time even approaching our regulators until we pass our own internal hurdles. We have obviously anecdotally heard what is going on with peers and have heard about those discussions. But specifically, we have not had, in the current environment, discussions with our own regulator.
- (Austin Ruth): OK. So apart from any TARP repayment, just capital ratios in general, is that a discussion that your regulator is involved with at this point?
- Mark Turner: We haven't had any specific discussions with them about raising capital related to TARP. And again, that is because –
- (Austin Ruth): Or unrelated. I am sorry – or unrelated to TARP.
- Mark Turner: Yes, that is something that I can't comment on given the current application we have out there on Christiana Bank & Trust and the shelf registration.
- (Austin Ruth): Got it, got it. OK, thank you.
- Mark Turner: Thank you.
- Operator: Thank you. I am showing no further questions or comments at this time. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect and have a wonderful day.

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