



Transcript

Milano:

Thank you. Good morning, everyone.

This conference call of F.N.B. Corporation and the reports it files with the Securities and Exchange Commission often contain “forward-looking statements” relating to present or future trends or factors affecting the banking industry and, specifically, the financial operations, markets and products of F.N.B. Corporation.

These forward-looking statements involve certain risks and uncertainties.

There are a number of important factors that could cause F.N.B. Corporation’s future results to differ materially from historical performance or projected performance.

These factors include, but are not limited to a significant increase in competitive pressures among financial institutions; changes in the interest rate environment that may reduce interest margins; changes in prepayment speeds, loan sale volumes, charge-offs and loan loss provisions; general economic conditions; legislative or regulatory changes that may adversely affect the businesses in which F.N.B. Corporation is engaged; technological issues which may adversely affect F.N.B. Corporation’s financial operations or customers; changes in the securities markets or risk factors mentioned in the reports and registration statements F.N.B. Corporation files with the Securities and Exchange Commission.

F.N.B. Corporation undertakes no obligation to revise these forward-looking statements or to reflect events or circumstances after the date of this call.

It is now my pleasure to turn the call over to Mr. Bob New, President and CEO of F.N.B. Corporation. Bob?

New:

Thank you, Frank. Good morning, everyone, and thank you for joining us. With me today is Brian Lilly, our Chief Financial Officer, as well as Gary Guerrieri, our Chief Credit Officer, and other members of our Senior Leadership Team.

I would like to begin our call this morning by recognizing the contribution of Steve Gurgovits. As you may recall, Steve turned over the role of CEO to me back in April, but he stayed on for the remainder of the year to assist with the transition, for which I am grateful.

Steve formally retired from the company on December 31st after 47 years of service. He will remain associated with FNB Corporation as a paid consultant and also will serve as the chairman of our board.

As I said in our press release, our 2008 financial results fell short of our expectations. We reported a net loss of \$18.9 million, or 21cents per share for the quarter. For the full year, we reported a profit of \$35.6 million, or 44 cents per share.

Our biggest challenge this year has been Florida. Even though it represents only 5% of our total loans, the impact on our 2008 results was significant. We took a series of actions this year to improve our processes to better manage the risk inherent in Florida and built our loan loss reserve accordingly, much of it in the fourth quarter. We also added to FNB's overall loan loss reserve in light of the challenges facing the economy. In a few moments, Gary will talk more about Florida and what we did with our reserves. He will also share with you details about our Pennsylvania and Ohio portfolios as well as Regency Finance.

Also this quarter we took a charge for Other Than Temporary Impairment on investments. Brian will cover the details of these charges when he reviews the Company's financial results and also provide guidance for 2009.

Following Brian's comments, I'll talk briefly about our view of the challenges facing us, how we intend to manage through those challenges, where we see opportunity, and our efforts to improve our performance to take advantage of those opportunities.

At this time, I would like to turn the call over to Gary Guerrieri, FNB's Chief Credit Officer.

Guerrieri:

Thank you Bob. I would like to cover this in three segments with you, including Florida, our Pennsylvania and Ohio banking portfolios, and Regency Finance. We took some aggressive action against our Florida portfolio during the fourth quarter. The \$32 million provision covered \$13.75 million in charge-offs, but more importantly allowed us to build our reserves by \$18 million to a level that now covers 9.69% of the total Florida portfolio, up from the 3.32% figure at the end of the third quarter. The portfolio declined by about \$14 million to stand at \$294 million, still only 5% of FNB's total loan portfolio.

As we've discussed in the past, our process continues to focus on reviewing each individual credit every quarter which includes meeting with our borrowers to update financial information, review project status updates, discuss upcoming maturities, obtain updated appraisals and review other alternatives that may include right sizing the loan, providing additional collateral, or moving the loan in total, if possible.

During the quarter, we were able to eliminate another \$12 million or 7.0% of our land and condo related portfolio from our balance sheet through sales or pay-downs from our borrowers. As of year-end, we have updated appraisals on all of our non-income producing exposures to within one year, with 77% being within 120 days and 91% within six months reflecting extremely current collateral valuations at this (most) difficult time in the Florida economy. Let me remind you that of the total \$294 million portfolio, approximately \$150 million, or about half, is comprised of land and land development 46% of that being commercial in nature, while our condo construction portfolio is now down to \$17 million.

With the exception of one credit related to the hospitality industry that we discussed last quarter, our income producing portfolio continues to perform well with outstandings of \$79 million. The balance of the Florida portfolio includes construction loans of approximately \$40 million and

C&I/owner occupied of \$9 million. At year-end, our weighted-average LTV for the entire portfolio stands at 73.7%, versus 71% for the third quarter. During the quarter, we made one loan on an income producing property and continue to be extremely cautious regarding any new lending opportunities across that market.

Now let me turn our attention to Pennsylvania. As it relates to our commercial portfolio, we experienced slightly elevated delinquency levels from the third quarter, but they remain well within tolerance at this point of the economic cycle. We recognized charge-offs on a number of credits that we were monitoring closely during the year, resulting in net charge-offs in our Pennsylvania commercial portfolio of 21 basis points. In addition, we built our reserve by nearly \$12 million to strengthen our allowance as we move into 2009.

In reference to our consumer portfolio, it continues to perform very well in this environment. While delinquencies are up slightly at 1.08%, losses continue to track at historically low levels at 31 basis points YTD. Losses across the mortgage portfolio continue to be minimal at one basis point.

These portfolios continue to perform very well due to our disciplined underwriting and our decisions to stay away from sub-prime, stated income, and brokered business opportunities. These decisions have proven to be sound as reflected in the performance of these portfolios. While we do anticipate slightly elevated delinquencies and losses as we move through the economic downturn, we expect these portfolios to continue to perform relatively well.

Taking a quick look at Regency Finance, the loan portfolio has remained relatively unchanged since the third quarter at \$157 million. We continue to experience normal delinquency and loss levels at 4.23% and 3.78%, respectively, which is consistent with levels experienced over the last couple of years.

I would now like to turn the call over to Brian Lilly, our Chief Financial Officer.

Lilly:

Thank you, Gary, and good morning, everyone.

The fourth quarter loss of 21 cents included a 47 cent impact from the increased provision for credit losses and Other Than Temporary Impairment charges. Without these charges the EPS would have been 26 cents which is reflective of a good underlying profitability picture. We are currently in a down credit cycle but this will pass over time and we believe that it is important to manage the core trends for long-term performance.

Let me add a few details to the Other Than Temporary Impairment charge that we took against the trust preferred pooled securities. As we have shared with you in the past, we have a total of \$55 million in trust preferred securities. Single name holdings comprise \$14 million, represent six names and all continue to be investment grade rated by Moody's. These are valued at 64 cents on the dollar as the spreads are very wide in this illiquid market.

The remaining \$41 million are in 13 pools representing 12 mezzanine and one senior debt tranch and had a fair market value of \$18 million at year end. We deemed eight of these pools to be Other Than Temporarily Impaired and realized a pre-tax loss of \$16 million. We made this determination based on a cash flow analysis that considered the current levels and trends in the deferrals and defaults, an analytical review of the 500-plus companies that make up the pools and an assumption that all deferrals and defaults will recover virtually nothing. It is worth noting that none of these pools have currently breached the collateralization levels and in fact on a weighted basis these eight pools must increase the current deferrals and defaults an additional 1.4 times to reach the collateral support levels.

Now let me turn to the fourth quarter review and 2009 guidance. I will start with some of our economic assumptions before we touch on loans and deposits, followed with the income statement categories and finish with capital. As usual, I will assume that you have had a chance to review the release details from yesterday.

Many key economic indicators worsened in the fourth quarter officially being recognized as a recession. The economist's consensus view is that the recession will continue well into 2009. As a result, unemployment has increased significantly and is expected to remain elevated in 2009 and the fed's interest rate policy has dropped rates to unprecedented levels and are expected to stay low. All of this presents a more challenging 2009 operating environment. We believe that these challenges demand more than ever that we continue our focus on liquidity, capital, risk management and the enhancement of our franchise.

Now let me turn to the fourth quarter results and 2009 guidance.

Average fourth quarter loan balances grew 1% annualized over the third quarter and reflected the smaller commercial pipeline that we shared with you in last quarter's call. We are very pleased with the year-over-year fourth quarter organic growth of 4.4% reflected in the commercial and consumer portfolios.

As we look to 2009, we are forecasting low single-digit loan growth. Incorporated into these expectations is the assumption that businesses and consumers will reduce their debts and that we will exit some of our troubled loans.

We expect total deposits and treasury management balances to match the loan growth in the low single digits and to maintain the loan to deposit and treasury management balances at a very good level of 90%. We have planned for our team to continue to add core transaction accounts and will use our wholesale borrowings and retail certificates of deposit as offsets, if necessary.

We expect the net interest margin to be lower in 2009 given the late 2008 fed interest rate actions, the unprecedented low level of these rates, higher non-performing assets and continued competition from banks that are not as well positioned with their deposit funding. We have planned for the margin to narrow to approximately 3.75% to 3.80% in the first quarter and to remain there for the rest of the year.

Gary provided an excellent overview of the credit quality and this will be a continued area of focus in 2009. Versus a more normal year, we do expect the coming year will contain elevated levels of non-performing assets, net-charge offs and provisioning for credit losses. As you know, many of these assumptions are driven by the economy and could worsen with a longer and/or deeper recession.

Fourth quarter non-interest income included good performance in our retail security sales and loan swap related income. The OTTI charges impacted this category with the TRUPs and bank stock impairments shown as “Impairment losses on securities” and the \$3 million impairment for the Capital Corp investments shown as a contra in “Other Income”.

We have taken some pricing actions to increase banking service charges and expect to benefit from a hardening of the insurance market and the sales of annuity contracts which have relatively attractive rates. Our trust team is focused on adding new business but will have head winds given their market sensitive fees. In total, we are targeting a run rate increase in the mid single digits. Of course, any additional OTTI charges would be included here.

Given our view for revenues in 2009, we are focused on maintaining our strong expense culture and taking incremental actions where appropriate. However, there will be unfavorable impacts from higher FDIC insurance, credit workout expenses and employee benefit costs. These increases are more than offsetting the expense savings that we have included in our 2009 plan. In total, we expect the efficiency ratio to run near the 60% level as the previously mentioned expense increases are not entirely offset by revenue gains.

With regards to capital, you saw that even with the fourth quarter loss we ended the year in a regulatory “well-capitalized” position. In early January we closed on our participation in the Treasury’s Capital Purchase Program through the issuance of \$100 million in preferred shares. This strengthens our capital position and provides the ability to increase lending and deposits as the economy recovers over time.

We also took a hard look at our capital strategy given the recessionary economy, elevated credit costs, narrower margin and higher regulatory costs. This review led the Board of Directors to reduce the quarterly payout to \$0.12 per share. This was not an easy decision given FNB’s 36-year history of increasing dividends, but we believe the decision was prudent given the environment.

Bob, that completes my comments.

New:

Thank you, Brian.

During the 4th quarter, we continued to build bench strength, adding John Williams, Jr. to the position of Pittsburgh Market Executive and President of the Pittsburgh Region. John has spent more than 38 years in his banking career in Pennsylvania and previously served as Executive Vice

President of Commercial Banking for Huntington, and prior to that he held executive management positions with National City and Mellon Bank.

In addition, we appointed David Yates to the new position of Corporate Strategies Coordinator. In this role, Dave will oversee a number of high-level strategic initiatives including process improvement and efficiency, product development, and customer service.

As Brian said in his remarks, many economists see the world and the U.S. economies continuing to slow in 2009 with a leveling sometime in the 2nd half of the year, then followed by a slow and gradual recovery as consumers and businesses continue to deleverage. These conditions will challenge bank profitability again in 2009. We believe that our conservative operating model, efficient use of capital, and the lower volatility of our traditional markets position FNB to outperform many of our competitors in 2009.

As a reminder, back in April, I reported that FNB's management and board of directors reaffirmed our conservative operating strategy that functions well in both good times and bad. Our operating strategy is designed to "manage our businesses for profitability." The components of our strategy require us to:

- Operate our businesses in markets we know and understand;
- Maintain a low risk profile;
- Drive organic revenue growth through relationship banking;
- Fund loan growth with core deposits;
- Target a neutral asset-liability posture to manage interest rate risk;
- Build fee income sources, and
- Maintain rigid control of expenses.

As the financial services industry restructures, I believe we will see investment banks dramatically de-lever, non-traditional consumer lending will largely disappear and wholesale funding models give way to more traditional funding models such as ours. As these events unfold, traditional banks, such as FNB, will become more important to credit creation. Furthermore, a constrained supply of deposit funding should require loan pricing to better reflect risk, which helps to improve net interest income.

These things won't happen overnight. They will take time. So, before we can enjoy the good times ahead, we have to successfully manage through the tough times we are in today. That means preserving our capital and maintaining our liquidity. It is for these reasons that we decided to reduce our dividend.

As we deal with today's challenges, it is critically important that we not lose sight of the promise of the future and prepare for it. We must strategically invest in our people, products, and processes to improve profitability; and continue to improve our sales and service culture to ensure we retain our current customer base, attract new customers to FNB and meet more of our customer's needs with FNB products and services.

We reaffirm our commitment to manage our business to create long-term value for shareholders and to position F.N.B. Corporation as a strong competitor in the communities where we do business.

That completes our prepared remarks. Operator, please open the call to questions.

New: [Following the Q&A portion of the call.]

Thank you once again for joining us today.

A replay of this call will be available, from 11:00 A.M. Eastern today until midnight on Tuesday, February 3rd. The replay can be accessed by dialing, (888) 203-1112; the confirmation number is 7951124. A transcript of the call will be posted, to the “Shareholder and Investor Relations” section of F.N.B. Corporation’s Web site, at www.fnbcorporation.com. Also on our Web site, under the “Shareholder and Investor Relations” section, is a letter I drafted to shareholders that you can access by clicking on the link, “Letter to Shareholders - January 2009.”

Thank you once again. This concludes our call.