



Transcript

**F.N.B. CORPORATION
THIRD QUARTER 2008 EARNINGS CONFERENCE CALL
October 24, 2008**

MODERATOR

– Bob New, President and CEO, F.N.B. Corporation

Operator

– Welcome to the F.N.B. Corporation Third Quarter 2008 Earnings Conference Call.

It is now my pleasure to turn the call over to Frank Milano, the investor relations contact for F.N.B. Corporation.

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 our third quarter 2008 earnings conference call. With me today is Brian Lilly, our Chief Financial Officer, and other members of our Senior Leadership Team.

I am pleased to report third quarter net income totaled \$23.5 million, and that we delivered within our prior guidance, with 27 cents per diluted share. It is nice to see our return on tangible equity back up among peer leaders, at 25.7%.

I am especially proud of our team's performance during this period of economic uncertainty. They delivered solid revenue growth, excellent expense control, and diligently managed asset quality. During the 3rd quarter, we continued the integration of the Omega franchise and also welcomed the Iron and Glass customers and teammates to the FNB family. You will recall, Iron and Glass was a strategic addition to our Pittsburgh market, which brings our total number of branches to 71 in that region.

Brian and I will cover the drivers of our performance in more detail during our call today.

Following are the key messages regarding our third quarter results:

- Earnings for the quarter met our guidance;
- Loan Growth, from all sectors, met our expectations;
- Deposit growth was better than expected, especially in our transaction accounts;
- The margin was healthy, and steady, during the quarter, but we continue to see pressure on deposit pricing;
- Non-interest income was steady;
- Expenses were under control and down from the prior quarter;
- Our Florida portfolio continues to affect credit quality and the trends there are not improving;
- However, overall asset quality remains manageable and we remain well-capitalized.

Let's take a closer look at these themes.

Average loans outstanding grew \$172 million sequentially, up 12.2% annualized. Excluding Iron and Glass, our organic growth was a solid 6.6% annualized for the quarter. Our commercial group was successful in winning some very high-quality commercial relationships this quarter. Our Pittsburgh team continued to pick up steam, and market share, in the 3rd quarter. We also saw steady performances from our Pennsylvania and Ohio offices.

As the quarter came to an end, we witnessed a slowing in our commercial pipeline. Some of that is seasonal and anticipated, and some of it is our customers and prospects exercising more caution about the economy. During the quarter, we took advantage of a disruption in the auto finance market to increase our indirect loan production and capture approximately \$40 million of new balances at very favorable rates and above average FICO scores.

All of these loans were underwritten using the same conservative standards as our existing portfolio.

Our success in deposit gathering can be attributed to three things:

- Our improving sales culture;
- A more aggressive and targeted treasury management effort, and
- A general flight to quality in our markets.

Organic deposit growth of \$131 million occurred across the product line and especially in our key relationship building categories of business demand and treasury management. As evidenced by our stable net interest margin, we were able to grow our business while maintaining pricing.

Our focus on service quality is also paying off. Last quarter we were recognized by a well-known polling organization as the "top service bank" in Pennsylvania. In 2008, we engaged an outside firm to survey our customers quarterly and measure customer's attitudes about our service. The results for the third quarter suggest we are achieving our goal of constant improvement.

Let's now turn our focus to credit quality.

During the quarter, we experienced an increase of \$21 million in non-performing assets, bringing the total to \$92.2 million, or 1.57%, of Total Loans plus OREO. The primary drivers of this change were 2 loans. One was a \$10 million Florida loan which entered into bankruptcy due to a partnership dispute. We have already obtained a new appraisal on this property, and placed a \$950,000 specific reserve against the loan in the 3rd quarter. The other, was a \$9 million loan in Pennsylvania that we picked up in our purchase of Legacy Bank. The current appraisal on that property more than supports our carrying value, and the customer continues to make payments.

We also moved an existing Florida non-performing loan into OREO at a carrying balance of \$4.3 million, after a \$1 million charge-off in September. We had immediate success marketing this property, obtaining 3 sales in this 10-unit property within the first 2 weeks of listing. One note about our non-performing assets: Of the \$92.2 million total, \$27.6 million, or nearly 30% of the total, continues to pay as originally agreed. In our opinion, we have appropriately recognized the loans as having weaknesses consistent with placing them on Non-Accrual, but the customers are current on their payments.

Now let's talk about Florida.

Our Florida portfolio, which I remind you is limited to 5% of our total loan portfolio, continues to be the area where we have the most concern. As we've discussed with you in the past, we do an extensive loan-by-loan review each quarter of the entire Florida loan portfolio. In addition, our process requires that we meet with all borrowers whose loans are coming due within the next 6 months. We review with those borrowers the current appraisals that we've ordered on their projects, and -- when necessary -- confirm with them those actions required to right-size the loan, provide additional collateral or move the loan in total. When renewals are appropriate, we are requiring borrowers to post additional interest reserves through cash payments to support the carrying cost of their projects. Also each quarter, we initiate a communication with our regulators to keep them well-informed of our actions.

As part of our risk management process, we obtain new appraisals annually on all non-income producing properties. At present, the weighted average LTV across the portfolio remains within acceptable limits at 70.6%, up a little over 4% quarter-over-quarter.

Our strategy continues to focus on reducing exposure related to the Florida residential real estate market. During the third quarter, we eliminated approximately \$17 million in land and condo-related exposure from our portfolio. These reductions were a result of a number of factors, including loan pay-downs, pay-offs and reduction in active lines.

During the quarter, we only made 2 new loans in Florida, the first being a \$7.7 million construction loan to an existing customer for a medical office building with a take-out upon completion from a local hospital, and the second being a \$4 million loan to a convenience store operator. At this point, I would like to turn the call over to Brian Lilly, our Chief Financial Officer.

Brian?

Lilly:

– Thank you, Bob, and good morning everyone.

The earnings release and Bob's comments have covered the third quarter operating results in good detail. In my comments I will provide an update on the trust preferred securities portfolio and then review our thinking on earnings guidance.

The fair value accounting standards and, in particular, the Other Than Temporary Impairment standard, is receiving a lot of attention. We have been pleased to see the appropriate authorities recognize that not all market quotes are created equal. We have monitored these developments with specific application to our Trust Preferred securities holdings.

Recall that we own approximately \$55 million with \$15 million in individual names and \$40 million in pools. Regarding the pooled holdings, we have valued these securities using cash flow and sensitivity analysis as well as an analytical review of the underlying companies.

Given the economic environment, we did use a premium discount rate to value the cash flows. The sum of our analysis resulted in a carrying value of approximately 68 cents on the dollar. This is lower than the discount at June 30th, which approximated 75 cents on the dollar.

However, we take some comfort in our shock scenarios. These shocks show that all current deferrals would have to default and then become worthless. Further, these amounts would have to grow by a multiple of 2 to 5 times, depending on the pool, before we would experience a loss. Clearly, we have cushion in these assumptions but there is economic stress in financial institutions and we are monitoring these securities closely.

Next, let me touch on the guidance for the fourth quarter.

In terms of the balance sheet, I would summarize Bob's comments as indicating that we expect the strong third quarter growth rates to slow in the fourth quarter. As we shared in our earnings release, the net interest margin benefited 3 basis points from returning a few loans to accruing status. Looking forward, the deposit pricing competition has picked up from an already very competitive base.

The increased FDIC insurance coverage and the consumer education have lessened the consumer risk of accepting some outlier pricing. Further, we have not seen the recent 50 basis point decrease in the fed funds rate translate into lower deposit rates at this point. And finally, we are seeing unusual rates in the LIBOR, fed funds and the wholesale markets. All of these factors put pressure on the net interest margin, and we expect a slight narrowing in the fourth quarter.

With regard to expenses, fourth quarter expense levels should be consistent with the third quarter as a full quarter of Iron and Glass's operating expenses is expected to offset the one-time merger costs incurred in the third quarter.

We did realize the cost savings from both the Omega and Iron and Glass mergers. The third quarter efficiency ratio was a very good 56% and we expect the fourth quarter to be better.

With regard to credit costs, we expect to see an increase in non-performing assets, primarily from our Florida portfolio. The net charge-offs for both the bank and Regency have been stable the last few quarters at a combined 30 basis points.

This could move a few basis points higher in the coming quarter due to some seasonality in consumer charge-offs. Also impacting the fourth quarter could be net charge-offs related to the resolution of larger credits that were specifically reserved for in a prior period.

In terms of providing for credit losses in the fourth quarter, we feel comfortable with the performance in our Pennsylvania and Ohio footprint including Regency, our consumer finance company. However, we do expect continued weakness in Florida and this will impact our provisioning going forward.

Summing up, based on the third quarter run rate and our view of the fourth quarter expectations, we would guide to the current consensus estimate; however it is appropriate for us to add caution in these historic times as credit costs will continue to impact our financial results.

One last point, I have seen that many in the investment community are beginning to include a pre-tax, pre-credit analysis in their evaluations. We also consider this metric internally to provide insight into the progress that we are making. On a year-over-year third quarter basis, after considering the planned dilution from the Omega and Iron and Glass mergers, we have grown 4%. This is very close to our investment thesis in a challenging environment.

With that let me turn the call back to Bob.

New:

– Thank you, Brian.

We are very pleased with the high levels of profitability we delivered in the third quarter. We feel we have benefited from being a strong competitor in a more stable part of the country. But we understand that there are challenges ahead for the economy; At the same time, we have confidence that our proven risk management practices will continue to serve us well. We like our position in the markets we serve and we look forward to your questions.

At this time, I am going to turn the call over to the operator to open the call for your questions.

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

Thank you once again for joining us.

A replay of this call will be available, from 11:00 A.M. Eastern Time today until midnight on Friday, October 31st. The replay can be accessed by dialing, (888) 203-1112; the confirmation number is 5054046. 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.

Thank you once again. This concludes our call.