F.N.B. Corporation

Transcript

Christopher:

Thank you, Alan. 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.

As a reminder, a replay of this call will be available until midnight on Tuesday, February 2, 2010 by dialing (888) 203-1112 or (719) 457-0820; the confirmation number is 5204528.

A transcript of this call will be posted, to the "Shareholder and Investor Relations" section of F.N.B. Corporation's Web site, at www.fnbcorporation.com.

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

Gurgovits:

Thank you, Cindy.

Good morning, everyone. It is a pleasure to welcome you to our fourth quarter earnings call. Joining me today on the call are Vince Calabrese, our C.F.O. and Gary Guerrieri, our Chief Credit Officer. Vince will highlight our fourth quarter performance and guidance for 2010 and Gary will provide insight into our asset quality.

Also with me today for the question and answer session are Brian Lilly, Executive Vice President and Chief Operating Officer and Vince Delie, Executive Vice President and Bank President.

Now to the fourth quarter. Our earnings for the quarter were 4 cents per diluted share. The quarter included 2 cents related to OTTI charges for TruPS and a 6 cents higher provision compared to the third quarter. Later in this presentation, Vince and Gary will elaborate more on the fourth quarter results.

During the quarter, opportunities created by the disruption in our market caused by mergers, branch sales, and other competitor issues continued. We are very pleased to report that FNB continued to execute its organic growth strategy to take maximum advantage of this market disruption.

Our calling efforts, combined with increased marketing to build brand awareness, helped produce the following for FNB in 2009:

- We generated 115 significant new commercial relationships, which delivered over $400 million in new commitments.
- We increased the net number of business checking accounts by nearly 1,800.
- We increased the net number of personal checking accounts by nearly 4,300.

This strategy will continue to benefit us as we enter 2010.

Also during the quarter, we began to see real progress from several earlier initiatives. The asset based lending team began to build a robust pipeline as they worked to build their own book of business as well as making joint calls with commercial lenders as a team approach with new prospects.

Our private banking initiative is getting real traction. This group is prospecting an upscale market segment as well as being the recipient of referrals from commercial and retail bankers.

Our small business lending unit and the centralization of small business underwriting has given us the opportunity for our bankers to focus on this segment of the market more efficiently and effectively, while maintaining consistent underwriting standards.

These initiatives combined with the efforts of our experienced banking team, produced total average loan growth in the fourth quarter of 4.3% annualized. Average commercial loans experienced growth of 6.8% annualized. Excluding the Florida portfolio, the commercial loan growth was 9.5% annualized. We are extremely pleased with this, considering line usage and existing customer demand is soft due to current economic conditions. This commercial growth represents mainly new client activity. Average consumer loans, including residential mortgages, grew slightly in the fourth quarter. We are pleased with this modest growth in our consumer portfolio when one considers that nationally, consumer debt outstandings have fallen dramatically.

As a direct result of securing new personal and business relationships, we grew average deposits and treasury management balances 6.1% annualized compared to the third quarter, with transaction balances growing 4.8% and treasury management balances, benefiting from both organic and seasonal growth, growing 60.5%. The decline in CD balances, is by design and reflects our focus on growing our transaction deposits.

Now, I would like to turn the call over to Gary for his remarks on asset quality.

Guerrieri:

Thank you Steve and good morning everyone. Taking a look at the fourth quarter, we continued our aggressive management of the Florida portfolio, writing down our impaired positions and providing an incremental $6 million in provision over the third quarter to right size the portfolio based on current market conditions. Our Pennsylvania and Regency portfolios continue to perform well in light of the current economic environment, with charge-offs up only slightly quarter over quarter. We were able to strengthen our reserve position in each of these portfolios which positions us well as we move into 2010. Delinquency and non-performing assets are up slightly quarter over quarter and continue to be consistent with our expectations. As in the past, I will break down and review each portfolio with you in detail.

At quarter-end, our Florida loan portfolio is down $28 million to $244 million or 4.2% of FNB's total loan portfolio. Non-performing assets at $82 million are up $5.9 million over the prior quarter as we moved two land related credits totaling $25 million to non-accrual status. This leaves only one significant land related credit in the amount of $20 million on accrual status at year-end which we expect will continue to perform. Charge-offs of $20 million were up $16 million over the third quarter and were primarily related to the land portfolio. Included in these write downs were existing specific reserves totaling $10 million. The difference, which required additional provisioning, reflects devaluations 5-10% higher than our heavily discounted assumptions already placed on this portfolio. As has been our practice, we continue to update the appraisals on all of our non-income producing properties at least annually, with 92% of them being updated within the last four months of the year, reflecting extremely current collateral valuations at this most difficult time in the Florida economy.

As it relates to the Florida portfolio composition, there was some movement since the third quarter. Our land and land development segment has been reduced to 40% (or $98 million), down $52 million since the fourth quarter of 2008, representing a 35% reduction in exposure year over year. Our income producing segment stands at 35% and continues to perform well. Construction loans represent 21% of the portfolio, with the condo piece of that nearly gone. The remaining 4% represents C&I and owner occupied. Unfunded commitments continue to decline, now at $13 million, down $3 million over the prior quarter, of which 75% are related to existing construction projects. Year over year, our Florida exposure, including unfunded, is down 24%.

Our weighted average loan-to-value ratio for the portfolio increased slightly to 77%, up 4 percentage points from the third quarter, primarily driven by land values which continued to experience pressure in the current environment.

As it specifically relates to the land and land development portfolio, our current outstanding balances are being carried at an average of 36.5% of the original appraised value post reserve, better than the 39% for the third quarter.

We continue to manage this portfolio very aggressively conducting formal reviews of each credit on a quarterly basis and meeting with clients regularly to review project status updates, update financial information, obtain new appraisals and evaluate other options to strengthen the Bank's position and reduce exposure.

Moving to Regency Finance, it continues to deliver credit quality metrics consistent with our expectations and remains well within historical asset quality levels. At quarter-end, the portfolio stands at $162 million, representing only 2.8% of our total loan portfolio.

Net charge-offs were 4.3% annualized and the reserve position remains strong at 4.20%. As we look at 2009 in review, we are pleased with the overall performance that Regency has delivered and the position of the portfolio at this point in the economic cycle.

I would now like to focus your attention on our core portfolio in Pennsylvania. At year end, this portfolio stands at $5.4 billion which represents 93% of FNB's total loan portfolio. As mentioned, we continue to be pleased with its performance in light of the economic conditions reflecting slightly increasing credit metrics on a linked quarter basis as evidenced by delinquency and non-accrual at 2.07%, up only 5 bp, non-performing loans plus OREO to total loans plus OREO at 1.39%, up 11 bp, and charge-offs of 37 bp, up 4 bp from the prior quarter.

The $6.5 million increase in non-performing loans and OREO reflects a $4 million net increase in non-accrual loans and OREO, impacted by one $3 million loan, and a $2.5 million increase in restructured mortgages as we continue to work with those customers. Charge-off performance continues to reflect strong results with losses of 37 bp annualized in the fourth quarter and 31 bp for the year. During the quarter, we strengthened our reserve position for the portfolio by 8 bp anticipating the effects that the recent recession may have on commercial borrowers.

Now let me break down our Pennsylvania portfolios for you. At year-end, our Pennsylvania commercial portfolio at just under $3 billion, or 51% of FNB's total loan portfolio, continues to be well diversified and remains relatively consistent with prior quarters with our non-owner occupied portfolio representing 33% of the Pennsylvania commercial portfolio.

At $980 million, the Pennsylvania portfolio remains well diversified both by industry and across our geographic footprint. It continues to perform well and remains in line with last quarter's performance as NPL's totaled $19 million or 1.97% of the portfolio, up only 6 bp. Total delinquency, including non-performing loans, is only slightly higher at 2.20%.

As we have communicated in the past, our Pennsylvania construction and land development portfolio is small at $172 million, down $11 million quarter over quarter, with only $29 million of that related to residential construction and land development. Non-performing loans at year-end are 1.45%. Within the construction book, our projects are thoroughly underwritten at 75-80% LTV's, require upfront borrower equity, and focus on permanent financing. As such, we are not facing the refinance risk that is associated with a greatly reduced permanent market.

We continue to be very pleased with the performance of our Pennsylvania consumer related portfolios which represent approximately $2.4 billion or 41% of FNB's total loan portfolio. You will recall that this portfolio is represented by nearly $1.2 billion in branch originated home equity loans and lines of credit, more than half of which carry first mortgage positions. The remaining consumer categories are consistent with the prior quarter. Delinquency at 1.67% and losses of 32 bp continue to reflect solid performance for the fourth quarter, as delinquency is up only slightly with losses being equal to the third quarter, reflecting the consistent performance across this portfolio.

As it specifically relates to the mortgage portfolio, delinquency at 2.9% has improved 23 bp over the past two quarters. Losses for the year were only 15 bp.

In summary, as we look back, 2009 will be remembered as one of the most difficult periods in recent history across the financial services industry.

That said, we continue to be very pleased with the performance of our Pennsylvania and Regency portfolios throughout this period. Our continued focus in Florida will be to reduce exposure across the market.

We remain confident that our steadfast approach to underwriting, experienced banking team, knowledge of our markets and customers, and attentive risk management practices will serve us well as we look forward to an economic recovery in 2010.

I'd now like to turn the call over to Vince Calabrese, our Chief Financial Officer.

Calabrese:

Thanks, Gary and good morning everyone.

Since we have addressed many of the fourth quarter details between last night's earnings release and the comments provided by Steve and Gary, I will focus my remarks on guidance for 2010, with some added color on our fourth quarter operating results.

First, let's discuss fourth quarter earnings on a pre-tax, pre-credit, run rate basis. In order to focus on the fundamental relationship of revenue to expense, we adjusted for provision and OREO expense as far as credit costs, and litigation costs and the OTTI charges as non-run rate items. On this basis, run rate net income increased 12% from the third quarter, driven by a 4% increase in revenue and flat expenses. The revenue growth reflected nice increases in both net interest income and fee income.

Now let me turn to additional fourth quarter highlights and 2010 guidance. To begin, we entered this year well positioned with solid loan and deposit growth during 2009, an improved funding mix, a successful capital raise that strengthened our balance sheet and strategic planning initiatives in place to capture market share. In looking to our projected financial performance for this year, I will start with some primary economic assumptions that we used to build our 2010 plan before touching on loans and deposits, income statement drivers, and finish with capital.

- The economists' consensus is that modest recovery will occur with GDP growth averaging 2.4%,
- Inflation is expected to remain low and unemployment is expected to remain near the current level of 10% throughout the year, and
- The Fed is expected to keep short-term interest rates low well into the third quarter.

Turning to the balance sheet, let's begin with loans. As Steve mentioned, we are very pleased with the loan growth we generated in the fourth quarter of 2009 and entered this year with healthy commercial pipelines. We look to build on the momentum we generated in this $3.2 billion commercial portfolio, which represents 55% of our total loan portfolio.

On the consumer loan front, we expect to see continued good growth in home equity products and some growth in residential mortgages, which is counter to our normal trends as we expect our new private banking initiative to contribute both residential mortgages and home equity loans.

For 2010, we are forecasting total loan growth in the mid-single digits driven by gains in new FNB relationships and a deepening of established relationships. This growth is based on consensus forecasts for an economic recovery occurring later in the year and an expectation that line utilization amongst existing customers will begin to trend upward, while the continued exiting of Florida credits will somewhat temper overall loan growth.

Looking ahead on the funding side, we expect to continue our momentum in growing transaction deposits and treasury management balances, further enhancing our funding mix. Given our successes in deposit growth during 2009 and market disruption expected to continue this year, we are forecasting growth in total deposits and treasury management balances to be in the mid-single digits. The loan to deposit and treasury management balances ratio is projected to remain in the mid eighties which provides ample capacity to lend.

We were pleased to expand the net interest margin to 3.85% for this quarter, a 7 basis point widening compared to the third quarter and our third consecutive quarterly expansion. The net interest margin has expanded 15 basis points since the first quarter of 2009. Our success in improving our overall funding mix and generating solid loan and deposit growth contributed to the improved margin. For 2010, we are looking for the margin to be stable at current levels given our relatively neutral interest rate risk position.

Non-interest income for the fourth quarter, excluding the impairment charges, saw a $1.8 million overall increase compared to the prior quarter. We saw increases in Wealth Management revenue due to improved market conditions in our trust business and a successful fall sales campaign in our securities business during the fourth quarter. We also realized increased swap fee revenue from our commercial business.

The OTTI impairment charges included in non-interest income for the quarter were almost entirely due to pooled trust preferred securities, with only $70 thousand related to bank stock holdings.

The remaining bank stock portfolio is comprised of 23 holdings totaling $3.0 million. After taking this quarter's impairment charge, the remaining portfolio was slightly above cost at the end of the year with the single largest unrealized loss of only $36 thousand.

Regarding the impairment charges on pooled trust preferred securities, 94% of the charge was related to three securities. For these securities, the amount of projected deferrals and defaults for the 488 banks that collateralize these securities again pushed past the prior quarter assumptions to trigger the additional credit impairment charges. We have 13 pools with an original cost of $41 million, a book value of $25 million and a fair value of $8 million, which is reflected in equity at year-end.

For this year, we are targeting a run rate increase in non-interest income in the low single digits as we anticipate an increase in wealth management revenue due to improved market conditions and higher service charge income resulting from continued growth in new business and consumer deposit accounts. Fee income generally is an area of risk for all banks given the continued attention from Washington. We currently have a group studying the rules that go into effect on July 1st for point of sale and ATM overdraft transactions. For us, the amount of fees attributable to these transactions is approximately $9 million annually. As with other banks, we are looking at different implementation approaches to maximize customer opt-in and potential changes in fee structures to substantially mitigate the affect of these rules.

Non-interest expense for the fourth quarter excluding the increased OREO costs related to Florida and the net litigation costs was relatively flat compared to the third quarter as we continued to focus on expense control. For the full year of 2010, we project an efficiency ratio in the low 60% level, with the typically higher first quarter ratio closer to the mid 60% level as the beginning of the year involves resetting employee benefits such as payroll taxes and seasonally higher occupancy costs.

Gary provided a comprehensive overview of our credit quality. Our 2009 results were affected by elevated credit costs, primarily due to our Florida portfolio. As we look ahead to this year, assuming continued improvement in the economy, we expect the levels of non-performing assets, net charge-offs and provisioning for credit losses to be lower than 2009 but still elevated compared to historical levels.

Regarding our capital position, capital ratios are expected to continue to exceed “well capitalized” thresholds throughout the year. We ended 2009 at much higher levels than we started the year, which positions us well for 2010.

Lastly, our effective tax rate this quarter is not representative of our normal operating levels due to the absolute low level of pretax income. As we look ahead to this year, we expect the effective tax rate on a GAAP basis to be in the 26% to 27% area. As for diluted shares, we are looking to end the year slightly higher than fourth quarter 2009 levels.

Steve that completes my remarks.

Gurgovits:

Thanks Vince. As we look ahead to 2010, we are more optimistic than we were at this time last year. We believe the economy has begun to recover, although unemployment will remain high. We have right sized our Florida portfolio based upon current appraisals. We would expect non-performing loans to crest near mid summer and begin to decline thereafter.

We are keeping a watchful eye on Washington and monitoring events. We would expect to react quickly to a changing regulatory environment.

We believe that the momentum we have established will continue into this year and we will continue to have organic growth opportunities. For instance, many commercial credit facilities at our competitors will mature during 2010. For the first time they will be renewed by a new bank. We expect that in a number of instances, pricing or structural terms of the credit could be changing. This will provide FNB the opportunity to look at new business.

An improving economy should cause loan demand and line usage to increase this year.

And finally, our entire staff is experienced, trained and certainly focused on customer service and new client acquisitions. Nothing breeds success like success and our staff certainly experienced significant wins last year. Based upon a recent employee corporate culture survey we continue to build a very strong positive corporate culture.

All of this bodes well for FNB and we would certainly expect this will lead to improved performance in 2010.

I will now ask the operator to poll the audience for any questions.

Gurgovits – After Q&A:

Thank you. I would like to thank everyone for joining us and your continued interest in FNB. I hope everyone has a good day and thank you for participating.