



# Transcript

## **Milano:**

Thank you, Stephanie. Good morning, everyone.

This conference call and the reports F.N.B. Corporation 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, from 11:00 A.M. Eastern Time today until midnight on Friday, July 31st. The replay can be accessed by dialing (888) 203-1112; the confirmation number is 3068754. 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](http://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, Frank. Good Morning, everyone. It is a pleasure to welcome you to our second quarter earnings call. Joining me today on the call are Brian Lilly, our Chief Operating Officer and Gary Guerrieri, our Chief Credit Officer.

The second quarter was a very active quarter for the company. In June, the board invited me to stay on indefinitely as CEO. I accepted their invitation and set about making several organizational adjustments.

Vince Delie, who previously served as President of the Banking Group, was promoted to Executive Vice President and Chief Revenue Officer of the Corporation. In addition, Vince was also named President of First National Bank of Pennsylvania. This move sharpens the focus and alignment on generating top line revenue growth.

Brian Lilly, formerly CFO, was promoted to Executive Vice President and Chief Operating Officer. In his new role, which is expanded, Brian has responsibility for all support groups, as well as risk management, including credit risk. Regency Finance will also report to Brian.

Vince Calabrese, formerly Corporate Controller, was promoted to Corporate CFO, replacing Brian. This team is very talented and energetic and it will be a pleasure for me to work with them in these new roles.

As a result of my new assignment, I recommended to the board that the duties of Chairman and CEO be separated. I believe this to be consistent with best practices for corporate governance. At the reorganizational meeting of the board, William Campbell was elected Chairman of the Board. Bill is an excellent choice. He is one of our longest serving directors, is a member of the executive committee and had been serving as lead director.

In June, with the capital markets once again reopened to the financial sector, we decided to pursue a capital raise and we successfully completed a stock offering. Our rationale behind the capital raise was:

- It positioned FNB to take advantage of profitable growth.
- The capital raise will also strengthen our tangible common equity ratio, while providing the opportunity to consider repayment of \$100 million of CPP funds by year-end, which because of the capital raise, would automatically retire one-half of the warrants associated with the CPP funds.
- We also believe that coming out of this financial downturn will be consolidation opportunities. Pennsylvania continues to be one of the least consolidated banking states.

Now, to the second quarter.

This was another successful quarter for F.N.B. We met the street consensus estimate with earnings of 10-cents per diluted share, we strengthened our balance sheet with the equity offering, we made solid progress managing our Florida loan portfolio and operationally, we continue to have success in capturing market share during this period of competitive disruption in our core Pennsylvania market.

Brian will address our second quarter performance in more detail later in this presentation, and Gary will provide additional insight into our asset quality.

With respect to our balance sheet, the June equity offering raised nearly \$126 million in net proceeds, which increased shareholder's equity to over \$1.1 billion and increased tangible book value per common share to \$4.25.

Regarding our competitive position, you will recall that we experienced solid organic loan and deposit growth last year and we accelerated that growth with the Omega and Iron & Glass acquisitions. The momentum on deposit and treasury management growth continued into the second quarter of 2009.

I am pleased to report that we grew total deposits and treasury management balances 5.4% organically second quarter vs. second quarter a year ago. Interestingly, second quarter year-over-year organic growth for transaction deposits was 9.1% and treasury management grew 17.8% year-over-year. CD balances declined 2.6% organically for the second quarter on a year-over-year basis, which is by design, as our strategy continues to be focused on new customer acquisition.

On the lending side, the slowdown in the overall economy kept commercial loan growth to just 0.3% on a second quarter year-over-year organic growth basis. Although existing business customers are not borrowing much at this time, we are well-positioned in our markets and have a solid team on the ground actively cultivating new relationships – so I am confident we are winning our share of the business. This is demonstrated to some extent by looking at Pennsylvania commercial loan growth on a linked-quarter basis, with our new business origination initiatives delivering close to 4% annualized growth.

Consumer loan growth continued to be driven by home equity lines of credit and indirect installment loans, which grew 20% on a second quarter year-over-year organic basis. The growth in home equity lines reflects the continued solid execution of our core growth strategies, while the growth in indirect loans has been opportunistic, as we captured business that weaker lenders have forfeited in that segment. Recent growth in indirect lending has slowed by design and we are currently managing this portfolio for only slight growth from current levels.

Partially offsetting growth in the above areas, declines in residential mortgage and direct installment loans on a second quarter year-over-year organic basis reflect the higher levels of refinance activity experienced this year. Our strategy of selling fixed rate residential mortgages in the secondary market to manage interest rate risk generated gains on sale of more than double our recent run rate.

In total, we reported year-over-year organic loan growth of 1.0%.

Now I'll turn the presentation over to Gary for his remarks about asset quality and the progress we've made with the Florida portfolio. Gary?

**Guerrieri:**

Thank you, Steve, and good morning, everyone.

In looking at the second quarter, we were able to execute on our plan to reduce exposure in our Florida portfolio while the Pennsylvania and Regency portfolios continue to perform as expected at levels consistent with the first quarter. Once again, I'll review each segment of our portfolio with you starting with Florida.

During the quarter, we were able to reduce our portfolio from \$302 million to \$274 million. More importantly, we reduced our Florida non-performing assets (NPA's) by \$22.7 million, with a little more than half of that being driven by payoffs and paydowns related to our land and condo portfolio and \$11.2 million in charges. We also moved \$5.7 million into Other Real Estate Owned (OREO) bringing our Florida OREO to \$7.9 million. With these actions, we have reduced our Florida NPA's 24%. Florida now represents 4.8% of FNB's total loan portfolio and is supported by an 8.5% reserve reflecting a 36% coverage ratio of non-performing loans, an improvement of 7 percentage points over the prior quarter.

As it relates to the Florida portfolio composition, land and land development has been reduced to 46% , or \$126 million, our income producing segment is at 30% and construction loans represent 20% of the portfolio, with the condo piece of that now down to \$6.4 million or only 2.3%. The

remaining 4% continues to represent C&I/Owner Occupied. Unfunded commitments total \$24 million of which 80% are related to existing construction projects. At quarter-end, our weighted average loan-to-value (WALTV) ratio for the portfolio stands at 66%, a 5 percentage point improvement over the first quarter.

As it relates to the land portfolio, our current outstanding balances are being carried at an average of 39% of the original appraised value post reserve, consistent with the first quarter.

While the market continues to be difficult, the elevated interest and activity that we experienced near the end of the first quarter has continued into the second quarter. We are pleased with the second quarter results; however, we remain cautious given the continued weakness in the Florida economy.

Turning 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 \$157 million, representing only 2.7% of our total loan portfolio. Net charge-offs were \$1.5 million, 25 basis points (bps) better than the first quarter, annualized at just under 4%. Our reserve position at 4.1% is consistent with the prior period.

Let's now focus your attention on our core portfolio in Pennsylvania. Our results represent metrics very consistent with those of the first quarter reflecting that our portfolios continue to withstand the challenge of the current economic environment. At quarter-end, the portfolio was a little over \$5.3 billion, representing 92% of total loans. Non-performing loans and OREO as a percentage of total loans and OREO improved 2 bps from the prior quarter at 1.13%, while delinquency was up slightly at 1.97%, still at good levels at this point in the economic cycle. Net charge-offs were \$4.9 million or 36 bps annualized and were impacted by a \$2.1 million charge off related to a prior acquisition that was previously reserved for. For the first 6 months, net charge-offs are 27 bps annualized which we consider to be very good levels. Our reserve position at 1.31% of total loans improved by 1 bp over the prior quarter and covers non-performing loans by 136%.

At \$2.9 billion, or 50% of total loans, our Pennsylvania commercial portfolio is well diversified and breaks down as follows: 31% C&I, 36% in owner occupied real estate, and 33% in non-owner occupied real estate, which is consistent with the prior quarter.

As we've discussed in the past, our non-owner occupied CRE portfolio at just under \$1 billion continues to be well diversified across industry segments as well as our geographic footprint. This portfolio has continued to perform well in light of the challenging environment with only \$12 million in non-performing loans representing 1.2% of the CRE portfolio, basically unchanged from the first quarter. Total delinquency including non-performing is 1.6%, 3/10% better than the 1st quarter. You'll recall that our construction and land development portfolio is small at \$170 million, with only \$40 million of that related to residential construction and land development.

We continue to be pleased with the performance of our consumer related portfolios which represent nearly \$2.4 billion or 42% of total loans. This portfolio is represented by \$1.2 billion in branch originated home equity loans and lines of credit, of which 52% carry a 1st mortgage position with an additional 24% carrying second positions to FNB 1st mortgages, indirect installments of \$520 million, mortgages of \$550 million and direct installments/lines of credit of \$130 million. Delinquency and losses relating to the total consumer portfolio continue to perform well through the second quarter at 1.52% and 27 bps, respectively.

We attribute this steady performance to our consistent and sound underwriting practices, a more stable real estate environment, and our decision to stay clear of participating in the higher risk product lines and brokered business arena.

In summary, we continue to be pleased with the performance of our Pennsylvania and Regency portfolios and the progress that we made in Florida during the quarter. While the economy continues to present challenges, our region has weathered the slowdown better than most and we feel that our consistent approach to underwriting, knowledge of our markets and attentive management of our portfolios will continue to serve us well.

I'd now like to turn the call over to Brian Lilly, our Chief Operating Officer.

**Lilly:**

Thank you, Gary, and good morning, everyone. We have addressed many of the second quarter details between last night's earnings release and the comments provided by Steve and Gary, I will focus my remarks on a few additional highlights of our operating results and an update of our guidance.

Let me start with loans. We look to continue the second quarter mid- single-digit commercial loan growth in Pennsylvania. Given the economic environment, this growth is more a reflection of market share gains than expanding existing customer relationships. The pipelines continue to be healthy but many companies have become more deliberate in their decision-making, thereby taking growth lower. We have also forecasted the continued exiting of Florida problem credits which is expected to partially offset the overall commercial loan growth.

The consumer refinance activity will continue to reduce the mortgage and home equity installment loan portfolios while the home equity lines of credit will continue to show good growth in this environment. For total loans, we are reaffirming our prior guidance of flat to small increases going forward.

Looking ahead on the funding side, we expect to continue our momentum in growing core transaction deposits and treasury management balances. Given our success in the first half of 2009, we are reaffirming the mid- single-digit growth with a continued focus on adding new customer relationships and further enhancing the mix of deposits by focusing on growing the lower-cost deposit products instead of the higher-cost, more price sensitive certificates of deposit (CD's). With our loan to deposit/treasury management balances ratio at a strong 86%, we are very well positioned to fund loan growth once demand picks up.

We were pleased to hold the net interest margin at 3.70% for this quarter, after adjusting for the 3 basis point pick-up on a few loans returning from non-accrual status. The yields on earning assets and rates paid on liabilities will continue to lower over the coming quarters given the

current rate environment. These movements are expected to be closely matched resulting in a steady net interest margin. One caveat is that the increased liquidity from deposits exceeding loan growth may put pressure on the ability to maintain the flat margin in the short run.

Regarding non-interest income, we saw nice increases in several categories. We did get the expected seasonal lift in service charge income as NSF, ATM fees and check card income contributed to the \$1.0 million increase. We also realized higher gains on the sale of residential mortgage loans, which more than doubled to \$1.1 million for the second quarter. Our wealth management businesses of Trust and Security sales bounced back from the lower first quarter revenues but they continue to be affected by the overall performance of the financial markets and interest rate levels when compared to last year.

Other non-interest income did include approximately \$800 thousand in recovery related to prior acquisition accounting for loans. This amount was offset by the net \$740 thousand other than temporary impairment (OTTI) charge taken in the second quarter. The impairment charge was split \$400 thousand related to the bank stock holdings and \$300 thousand related to the credit component of one pooled trust preferred security.

The remaining bank stock portfolio is comprised of 27 holdings totaling \$2.9 million. After taking this quarter's OTTI charge, the remaining portfolio is only \$52 thousand under water with the single largest unrealized loss of just \$35 thousand.

Regarding the one pooled trust preferred security impairment charge, the amount of actual and projected deferrals and defaults have pushed past the year end assumptions to trigger the additional credit impairment charge. Recall that we have 13 pools with an original cost of \$41 million and a book value of \$31 million. Our assumptions for valuing credit impairment versus the actual deferrals and defaults have tightened up in the second quarter. We continue to have room in our assumptions for a prolonged economic weakness but we have seen certain pools perform worse than others.

While there are a lot of moving parts in non-interest income, we expect low- to mid-single-digit growth from our fee businesses with the exception of mortgage gains. The mortgage origination volume is still above average but is slowing down given the recent increases in longer term rates.

As you know, the linked quarter expenses increased \$5.3 million and was driven by a \$4.7 million increase in the FDIC insurance and a netting of other seasonal expenses. We continue to focus on expense control but have made some investments in marketing and key hires to take advantage of the market opportunities. That said we have projected expense level to be consistent with the second quarter, excluding the special FDIC assessment.

Gary provided an excellent overview of the credit quality. We continue to expect elevated levels of non-performing assets, net charge-offs and provisioning for credit losses, particularly as we continue to pursue opportunities to reduce our Florida exposure. The second quarter showed good progress in Florida and stability in the Pennsylvania portfolio. However, we remain cautious. As you know, many of our assumptions are driven by the economy and could worsen with a prolonged recession.

You have certainly noted the June capital raise had a positive impact on our capital ratios. Even with a buyback of the CPP preferred shares the total risk based capital ratio would be a strong 13%.

Steve, that completes my remarks.

**Gurgovits:**

Thank you, Brian. Let me close by saying how pleased I am with our second quarter accomplishments. I have been with FNB for well over 40 years and never have I ever been more optimistic or energized about FNB's market opportunity.

We have built a very strong team of experienced bankers who live and work in their local communities. Our offering of products and services, I believe, is very competitive.

In spite of our recent success, we feel most of the competitor customer disruption still lies ahead. We have begun a very focused media campaign which will play out over the next couple of quarters. This campaign will support direct marketing and individual calling efforts in an attempt to garner more new customers. Many households and businesses will be choosing a bank in the coming months.

First National Bank is the right choice, right here, right now.

I want to thank you for your interest and participation in today's call. I would now like to ask Stephanie to poll for any questions.

**Gurgovits - After Q&A:**

Thank you, Stephanie. We just want to thank everyone for their interest and participation in our call, and wish everybody a very good weekend. Thank you so much.