



# Transcript

## **Cindy Christopher, Investor Relations**

Thank you, Erynn. Good morning everyone.

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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;
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- 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, August 3, 2010 by dialing (888) 203-1112 or (719) 457-0820; the confirmation number is 4126662.

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?

**Steve Gurgovits, President and C.E.O., Introduction**

Thank you, Cindy.

Good morning, everyone. It is a pleasure to welcome you to our second 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 second quarter performance and Gary will review our asset quality.

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

Now to the second quarter. We are very pleased with our second quarter results. Our earnings for the quarter were 16 cents per diluted share. This is 2 cents per share higher than the consensus street estimate, a 92 basis point return on average tangible assets and a dividend payout ratio of 77%.

Our success in generating market share gains continued during the second quarter, with average loan growth of 3.3% annualized and average deposit and treasury

management growth of 9.2% annualized. Our core Pennsylvania commercial portfolio grew average loans 4.7% annualized and represents the fourth consecutive quarter of solid growth for this portfolio. This growth continues to represent mainly new client activity as the commercial team has generated 70 significant new relationships with nearly \$260 million in new commitments year-to-date. We are extremely pleased with these results and the growth in our consumer portfolio.

Our average consumer loans grew 1.8% annualized on a linked quarter basis, a positive accomplishment given the slow pace of economic recovery and recent industry trends. This growth reflects the success of an increased focus on this portfolio with new products and promotional pricing during the quarter.

We are also very pleased with the deposit growth we experienced during the second quarter. As mentioned, total average deposits and treasury management balances grew 9.2% annualized, with transaction balances growing 13.3% annualized. This growth is the direct result of new account acquisition combined with customers maintaining higher balances. We increased our net number of business and personal checking accounts by over 1,100 in the second quarter, or 1.3% annualized and by nearly 3,000 accounts, or 1.7% annualized year-to-date. Before I turn the call over to Gary to talk about asset quality, I would be remiss without commenting on Reg E and the recently enacted Regulatory Reform.

First Reg E. We have had a team focused on implementing and mitigating the impact of Reg. E for several months now. We have developed the processes and have the people in place to accomplish this. We are contacting our customers through a variety of channels to educate them on their choices and provide them the opportunity to opt-in. With the implementation date approaching, we are at the height of our efforts. However, we will continue our efforts and expect accelerated opt-in rates even after August 15 as our customers begin experiencing the effects of Reg E. Additionally, we are currently evaluating a number of strategies to mitigate the impact

of any lost revenue. Vince Calabrese will be discussing the estimated financial impact of Reg E with you later.

Regarding the Dodd-Frank Act, it is the most significant banking legislation since the 1930's. While we support financial regulatory reform, the Act is expected to pressure industry revenue and elevate expense. Many elements of the reform are still unknown at this time and will be resolved through future regulation. We have the team, the products and the infrastructure in place and are ready to address the reform proactively. Additionally, we believe that along with the uncertainty and challenges that the Act will bring, opportunities will occur as well.

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

**Gary Guerrieri, Chief Credit Officer**

Thank you Steve and good morning everyone. Looking at the second quarter, both the Pennsylvania and Regency portfolios continued to perform very well, evidenced by improving and consistent results, while exposure in our Florida portfolio was further reduced as is consistent with our plan. Annualized net charge-offs for the quarter were 53 basis points while total delinquency improved by 22 basis points to stand at 2.97% as both early stage and 90+ delinquencies were down once again this quarter. Non-performing loans plus OREO at 2.88% improved by 16 basis points on a linked quarter basis due to positive movement in both the Pennsylvania and Florida portfolios. Let's now take a look at each portfolio, beginning with Florida.

At quarter end, our Florida portfolio stands at \$231 million, now only 3.9% of F.N.B.'s total loans, a reduction of \$9.2 million on a linked quarter basis. Of that total, let me remind you that the \$138 million non-land segment continues to perform as expected, centering our focus on the \$93 million land related portfolio, which represents only 1.6% of F.N.B.'s total loans. As it relates to the \$9.2 million reduction during the quarter, a portion included the sale of a \$3.5 million performing credit to a Florida

based community bank at par, an indication in our view that secondary markets and lending activity are beginning to open up. Charge-offs for the quarter totaled \$1.9 million, while \$4.4 million in non-performing loans were moved into OREO as we work towards ultimate resolution of these credits. We also sold \$3 million in OREO in the second quarter with \$2.4 million of that being land related, generating a \$250,000 gain on sale. As a result of these events, non-performing loans plus OREO were down slightly since the first quarter to stand at \$76.3 million.

During the second quarter, we strengthened our reserve position by 222 basis points to 11.65% of the Florida portfolio as we remain cautious about the reappraisal risk surrounding land values in Florida, which have not fully stabilized. Our process to update these property values on an annual basis continues. These land-related loans are being carried at an average of 33.5% of the original appraised value post reserve, an improvement from 36% the prior quarter due to the reserve build.

The weighted average loan-to-value ratio for the Florida portfolio increased slightly to 79%.

Moving to Regency Finance, we are very pleased with the continued strong and consistent performance of this portfolio as evidenced by solid credit quality metrics. At quarter-end, the portfolio stands at \$160 million, representing nearly 3% of our total loan portfolio. Net charge-offs improved by 23 basis points to 3.73% annualized and the reserve position remains strong at 4.20%. Delinquency was solid at 3.96% and represents the third consecutive linked-quarter improvement.

Let's now take a look at the Pennsylvania portfolio. At quarter-end, this \$5.6 billion portfolio represented 93% of F.N.B.'s total loan portfolio and performed very well as second quarter credit metrics improved on our solid first quarter results. Charge-off performance at 32 basis points annualized remained in line with our historically good results. Additionally, delinquency was down 14 basis points to stand at 1.91%,

marking the second consecutive linked-quarter decline for the portfolio as early stage and 90+ delinquencies both improved.

Non-performing loans plus OREO at 1.56% improved by 9 basis points since last quarter as non-accruals were down \$4.6 million driven by one large relationship paying off during the quarter, accounting for nearly half of this reduction. As it relates to the Pennsylvania non-accrual loans, \$14 million or 22% continue to be paid on a current basis.

Let's now take a look at a few segments of the Pennsylvania portfolio. At just over \$3.0 billion, our Pennsylvania commercial portfolio represented 52% of F.N.B.'s total loan portfolio with the composition of loans remaining consistent with the prior quarter.

The non-owner occupied portfolio totaled \$1.0 billion at the end of the quarter and has continued to perform well with slightly elevated credit metrics, as NPL's plus OREO moved to 2.25%, up 15 basis points over last quarter, while total delinquency stood at 2.33% and was up 5 basis points, both remaining at satisfactory levels.

The consumer related portfolio totaled \$2.4 billion and comprised 41% of F.N.B.'s total loan portfolio, with continued consistent credit performance and excellent results for the quarter. Delinquency improved 19 basis points to stand at a very solid 1.21% and was impacted by positive movement across all segments. Consumer portfolio losses remained in line with our historically strong levels at 30 basis points. As it relates to the mortgage portfolio, delinquency at 2.24% improved by 11 basis points over the first quarter while losses remained low at 9 basis points.

In summary, the second quarter demonstrated continued solid performance for our Pennsylvania and Regency portfolios with improved credit metrics, while our Florida portfolio exposure continues to be reduced as planned. We are optimistic that the levels of non-performing loans plus OREO have reached a cresting point and that we

will experience slight declines throughout the end of the year should the economic recovery continue as expected. We anticipate net charge-off levels and the provision for credit losses to be elevated compared to historic results, but to remain lower than 2009 levels. The stability we experienced in our core portfolios throughout the stages of the cycle is a credit to the consistency of our underwriting and risk management practices, which have served us well. With many of the economic challenges behind us, we look forward to even stronger credit performance as we move through the recovery.

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

**Vincent Calabrese, Chief Financial Officer**

Thanks, 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. Therefore, I will focus my remarks on a few additional highlights of our operating results, an update of our guidance and some Reg E status comments.

First, in looking at our performance ratios, we are pleased with our second quarter return on tangible common equity of 15.65% and a return on tangible assets of 0.92 basis points. We consider these very reasonable levels at this stage in the economic recovery.

Additionally, we are pleased with the results of the business drivers during the quarter – an expanding margin, solid loan and deposit growth, stable fee income, controlled expenses and improving credit quality. Now turning to the balance sheet, let's begin with loans.

As Steve mentioned, we generated solid loan growth in the second quarter as we continue to gain market share. Total average linked quarter commercial loan growth for our Pennsylvania portfolio was 4.7%, annualized.

On the consumer loan front, our total growth during the quarter of 1.8% annualized was driven by growth in home equity lending reflecting the success of several promotional initiatives for these loans.

Regarding our outlook for total average loans compared to 2009, we are expecting growth for the full year of 2010 to be in the low-to-mid single digits, excluding the impact of continued reductions in the Florida portfolio. This is based on consensus forecasts for continuing the economic recovery.

Looking at the funding side, we are very pleased with the strong second quarter total annualized growth in deposits and treasury management balances of 9.2%. We expect to continue growing both transaction deposits and treasury management balances, further enhancing our funding mix. For the year as a whole, we expect to experience mid-to-high single digit growth in total average deposits and treasury management balances.

On a linked quarter basis, the margin expanded by seven basis points to 3.81% in the second quarter primarily reflecting growth in earning assets and a lower cost of funds. The second quarter margin also included a four basis point benefit from successful efforts resolving certain non-accrual loans that resulted in us being repaid with back interest. In addition to this benefit, the margin widened another three basis points compared to the first quarter through a combination of investing excess liquidity and closely managing our cost of funds.

We expect to continue improving our overall funding mix and for our interest rate risk position to remain neutral. We expect the margin to remain stable at current levels for the remainder of the year.

Non-interest income totaled \$28.4 million for the second quarter. Excluding securities gains and OTTI charges, non-interest income decreased 1.9% compared to the prior quarter. However, the first quarter included \$3.3 million in recoveries on impaired loans acquired through acquisitions and the second quarter includes the \$1.6 million gain in F.N.B. Capital Corporation related to the successful harvesting of a mezzanine financing relationship. After adjusting for these items, non-interest income increased 4.5% during the second quarter, which is primarily due to seasonally higher service charges.

On the topic of fee income, similar to every other bank in the country, we are busily working to sign up as many customers as we can in response to Regulation E. For us, the amount of revenue at risk on an annual basis is \$11.6 million. From the implementation date of August 15 through the end of the year, our estimated amount of revenue at risk is \$4.5 million. As Steve discussed, we are in the midst of our opt-in efforts and expect to reduce the post-implementation date impact for 2010 to under \$1.7 million or 1 cent per share. Our strategy over the next few months will be to continue to focus our efforts on customers who are higher frequency users.

While there are a lot of moving parts in non-interest income, we expect a run rate increase in the low single digits for the full year of 2010 compared to 2009.

Non-interest expense of \$63.1 million for the second quarter remained very consistent with the prior quarter when excluding the \$2.3 million in FHLB pre-payment penalties last quarter. The efficiency ratio for the second quarter was 60.5%. We continue to focus on expense control throughout the organization and reaffirm a projected efficiency ratio in the low 60% level for the remainder of the year.

Gary provided an excellent overview of our credit quality. We are pleased with the second quarter delivering improving credit quality results in line with our expectations. Looking ahead to the second half of the year, we expect the provision to be

consistent with levels reported for the first half of the year as we continue to reserve for the re-appraisal risk in the Florida land-related portfolio.

Regarding our capital position, we expect our capital ratios for the remainder of the year to be consistent with current levels, continuing to exceed “well capitalized” thresholds.

Steve that completes my remarks.

**Steve Gurgovits, President and C.E.O.**

Thank you, Vince. With financial reform and increased compliance burden, we believe that the Pennsylvania stage is set for industry consolidation. We still have a desire to expand eastward in PA as well as build out the central PA and Pittsburgh regions. Therefore, we will be continuing to have conversations with bankers in those geographies throughout the year.

A topic generating significant interest and one that we are closely monitoring is the Marcellus Shale natural gas repository. The Marcellus Shale formation can be found beneath about 60% of Pennsylvania’s total land mass and once fully developed, has the potential to be the second largest natural gas field in the world.

Although in the very early stages of development, the estimated impact of the Marcellus Shale to the Pennsylvania economy for years to come is substantial. A study released in May 2010 by researchers at Penn State University estimate that Marcellus Shale contributed to the creation of over 44,000 jobs last year, with total job creation of 111,000 expected by the end of this year and 212,000 by the end of 2020.

What does this mean for F.N.B.? While we are not able to state tangible direct benefits in this early stage of development, our banking footprint aligns closely with the Marcellus Shale formation and the Pennsylvania wells started during 2009. In

fact, in an Industry Note recently published, Sterne Agee screened F.N.B. as the second best positioned institution in Pennsylvania based on an overlap of drilling permits issued, wells being dug and our market share in these counties. Overall, the total economic stimulus to the Pennsylvania economy as a whole appears to be very promising.

That concludes our formal remarks; I will now turn the call over to the operator for your questions.