F.N.B. Corporation

Transcript – Third Quarter 2011 Earnings Call
October 20, 2011

Cindy Christopher, Investor Relations

Thank you and good morning everyone, welcome to our third quarter of 2011 earnings call. 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. For more information about risks and uncertainties which may affect us, please refer to the forward-looking statement disclosure contained in our third quarter of 2011 earnings release, and in our reports and registration statements F.N.B. Corporation files with the Securities and Exchange Commission and available on our corporate website. 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 Thursday, October 27, 2011 by dialing (877) 870-5176 or (858) 384-5517; the confirmation number is 4796847. In addition, a transcript of this call and the Webcast link 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, CEO of F.N.B. Corporation. Steve?

Steve Gurgovits, Chief Executive Officer

Thank you, Cindy.

Good morning, everyone. It is a pleasure to welcome you to our third quarter earnings call. Joining me today on the call are Vince Calabrese, our C.F.O. and Gary Guerrieri, our Chief Credit Officer.

Also with me today for the Q&A session are Brian Lilly our Vice Chairman and Chief Operating Officer and Vince Delie, President of F.N.B. Corporation and Bank C.E.O.

Taking a look at our third quarter, we are very pleased to deliver another quarter of solid results. Third quarter earnings of $0.19 per diluted share exceeds consensus and continues an upward trend of solid profitability due to the positive performance of our key business drivers. Top line revenue growth was achieved for the eighth consecutive quarter through continued successful loan growth and a stable net interest margin. To briefly comment on the net interest margin, maintaining a stable margin is a key operating strategy for us. Our margin results during the challenging environment over the last few years reflect a diligent alignment of strategies in the field with a very active ALCO process. Vince will discuss our margin results, strategy and near-term outlook in further detail during his remarks.

For the past several quarters I have discussed the importance of maintaining our strong momentum. Our commercial bankers have been successful not only maintaining but building on momentum, again in a very challenging environment. This is evident in the results, with linked quarter average loan growth of nearly 9% annualized for the Pennsylvania commercial portfolio –the tenth consecutive quarter of growth for this portfolio which is a very significant accomplishment. This growth continues to primarily come from successful market share gains, as line utilization remains stable and at historical lows. This concentration on taking market share is focused on the entire client relationship and benefits us with not only loan growth, but also deposit growth and fee income growth opportunities.

Additionally, our consumer portfolios grew over 7% annualized driven by successful promotions and marketing efforts to capitalize on consumer preferences for home equity products in the current low rate environment. In total, all of our loan portfolios experienced growth during the third quarter resulting in nine consecutive quarters of total loan growth.

Turning to deposits, linked quarter growth in lower cost transaction accounts and customer repurchase agreements continued in the third quarter. The average balances in these accounts grew nearly 6% annualized through new account acquisition combined with customers maintaining higher average balances.

Asset quality results for the quarter were very good, and now to discuss asset quality in greater detail, I'll turn the call over to Gary for his comments.

Gary Guerrieri, Chief Credit Officer

Thank you Steve and good morning everyone. The third quarter demonstrated continued solid and consistent asset quality metrics in our Pennsylvania and Regency portfolios, while the activity we had in the Florida portfolio was focused on a few credits. Our portfolio once again exhibited the positive trends that we have been experiencing now for several quarters, with only a few metrics slightly elevated over the prior quarter due primarily to the impact of an $8 million Florida credit moving to non-accrual. Delinquency stood at 2.57% at the end of the third quarter, an 11 basis point increase over the prior quarter driven by this credit. Net charge-offs at 53 basis points annualized were up 11 basis points from the prior quarter, but were still at good levels as we continue to work through the Florida reappraisal process. Let's now look at the components of each portfolio.

At $6.5 billion, the Pennsylvania portfolio represents 95% of FNB's total outstanding loans and continues to perform exceptionally well. Quarterly net charge-offs at 25 basis points represent the lowest level in ten quarters, with year-to-date net charge-offs of only 29 basis points. Delinquency improved slightly to 1.78% and benefited from lower early stage delinquencies in the C&I portfolio. The level of non-performing loans plus OREO improved 15 basis points linked-quarter to stand at a very good level of 1.21% following an $8.4 million net reduction in restructured loans. During the quarter, in the normal course of our analysis of our restructured credits, we took action and returned to performing status $9.6 million of restructured residential mortgages that have consistently met their modified obligations for an extended period of time, resulting in reduced levels of non-performing restructured loans. We continue to track the performance of these loans and assess them on a regular basis.

Moving next to Regency Finance, the $162 million loan book represents 2.4% of FNB's total loan portfolio and demonstrated ongoing solid performance. Charge-offs at 3.42% annualized for the third quarter improved by 20 basis points on a linked-quarter basis, reflecting our best performance since 2007. Delinquency ticked up 17 basis points to stand at 3.79% as a result of slightly higher early stage delinquencies, though still remaining at very good levels.

Turning next to Florida, the land-related portfolio was down nearly $4 million from the prior quarter to stand at $70 million, consisting of $20 million in OREO and $50 million in loans, with the majority of the reduction in exposure during the quarter attributable to the write down of two properties for $3 million. As mentioned earlier, we moved an $8 million loan to non-accrual during the quarter, as it was approaching maturity and had fallen into delinquent status. At this point, we have an interested buyer in the property and are cautiously optimistic that it will be sold in the fourth quarter. Also during the quarter, we completed the sale of two non-land OREO properties that were being carried at $2.5 million, which yielded a collective gain of $780M.

As it relates to the reappraisal process in Florida, we have updated 40% of our land-related portfolio including OREO through the third quarter. We expect that current reserves and planned provision levels will provide adequate reserves to support the remaining fourth quarter appraisals.

In summary, our Pennsylvania and Regency portfolios are performing very well and we continue to be very pleased with their performance, a reflection of the strength of our team and the risk management and underwriting philosophies we've instilled throughout the organization. As the economy presents its challenges, we will continue to rely on these philosophies to support the ongoing performance of these portfolios. Our strategy in Florida remains unchanged, and we are pleased with the increased level of discussions we are having with potential investors regarding a number of properties, as we continue our focus on reducing this exposure.

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

Vince Calabrese, Chief Financial Officer

Thanks Gary and good morning everyone.

As Steve discussed, third quarter results of $0.19 per diluted share reflect strong performance from our key drivers, building on the first half of the year's solid results. I will focus my remarks this morning on additional highlights of operating results and guidance for the fourth quarter of 2011.

First, regarding our expectations for the fourth quarter. With year-to-date results in line with our expectations, we are reaffirming our prior guidance for loans, deposits, fee income, expenses and asset quality and slightly revising guidance for margin. You will notice that while we have previously provided full year guidance figures, I will focus guidance on the last quarter of the year.

Turning to the balance sheet, average earning assets increased 4.5% annualized, with loan growth results reflecting the continuation of positive trends. Total average loans grew 7.6% annualized in the third quarter, and we are pleased to see all portfolios experiencing growth. Strong linked-quarter growth of 8.7% annualized in our Pennsylvania commercial portfolio was again the overall primary driver with positive results seen across our regions.
Total average consumer loan balances increased 7.4% annualized, lead by very solid growth of 10.1% annualized in home equity average balances. Demand for these products increased in the third quarter given the attractive low rate environment and the effectiveness of marketing and promotional initiatives. Average indirect auto lending balances experienced an increase of 6.3% annualized, continuing positive trends seen during the first half of 2011.

Looking at the other components of earning assets, average securities increased $38.6 million on a linked-quarter basis, primarily reflecting the full quarter impact of investing the capital raise proceeds received last quarter. Balances invested on an overnight basis decreased $67 million to fund the strong loan growth this quarter.

We are very pleased with the successful growth trends in loans over the past ten quarters. Looking ahead to the fourth quarter, we look for loan growth to be in the mid-single digits on an annualized basis.

On the funding side, we remain focused on attracting transaction deposits and customer repos. Growth in these relationship-based accounts, which benefit funding costs and deepen client relationships, equaled 5.6% annualized on an average basis, with growth reflecting new account acquisition and higher average balances. Given this focus on gathering new transaction accounts, there was a planned reduction in time deposits.

For the fourth quarter, we look for a slight decline in total deposits and customer repos reflecting normal seasonal trends and efforts to manage the overall size of the balance sheet. We expect the year-end balance sheet to be consistent with the end of the third quarter and slightly below $10 billion.

To comment briefly on our funding sources, we remain primarily funded with customer relationship balances. Between deposits, commercial customer repos and consumer subordinated notes, total funding based on customer relationships remains consistent with the prior quarter at 96%. This provides us with significant flexibility to fund our balance sheet.

The margin was stable, expanding 1 basis point to 3.79% for the third quarter. As Steve mentioned, maintaining a stable margin is one of our key operating strategies and we have been successful maintaining the margin in the 3.77-3.81 range for the past six quarters. Our strategy has consistently been to manage to a relatively neutral interest rate risk position and we execute that strategy through very active ALCO and pricing committees combined with a focus in the field on growth in lower cost relationship-based deposits, disciplined pricing practices and generating quality loan growth. As we look ahead to the fourth quarter, we expect the margin to be stable at current levels based on our loan and deposit growth expectations.

Non-interest income increased 5% annualized for the third quarter, with positive results seen in most of the fee categories. The quarter included seasonally higher service charge revenue and insurance commissions. Additionally, swap fee revenue, included in other non-interest income, remained historically strong given the level of commercial lending activity during the quarter. Improvements were also seen in gain on sale of residential mortgage loans due to the overall volume increase we experienced with the low rates spurring additional activity. Conversely, securities commissions and trust income declined given the unfavorable stock market conditions. For the fourth quarter, we reaffirm a targeted non-interest income run rate in the $29 million range.

Turning to expenses, total non-interest expense increased $848,000 or 4.9% annualized from the prior quarter, due to higher personnel costs and other expense items partially offset by lower OREO expense. Additionally, nearly half of the total net increase is a result of higher one-time merger-related costs and $270,000 in additional occupancy expense due to flood restoration costs. Aside from these two items, personnel costs increased due to several reasons, including seasonally higher part-time salaries expense and increased profitability and performance–based accruals for incentive compensation. OREO costs decreased due to lower Florida valuation adjustments, including realized gains and losses.
The other expense line item increased primarily due to higher loan related expenses incurred in conjunction with a home equity promotional offering. Looking forward, we are reaffirming a targeted quarterly non-interest expense run rate in the $68 million range for the fourth quarter. This would translate into an efficiency ratio near 58%.

Switching over to credit quality, as Gary discussed, we remain pleased with the solid results for FNB. These results are trending within our expectations and we reaffirm our prior guidance for the fourth quarter. This includes our expectation for levels of non-performing loans and OREO to continue to gradually decline and for provision for loan losses to be around $9 million for the fourth quarter. This provision takes into consideration expected decreases in Florida land valuations from fourth quarter reappraisals.

Next, let’s take a look at the effective tax rate for the third quarter and expectations for the fourth quarter - the third quarter effective rate on a GAAP basis is lower than expected due to net adjustments of $460,000, with the primary driver related to a recent IRS directive providing a safe harbor deduction for certain merger-related costs. This net benefit to third quarter results was partially offset by the after tax $360,000 impact of merger and flood-related costs I discussed earlier. For the fourth quarter tax rate, we expect a GAAP-basis effective rate to be in the 27%-28% range.

Lastly, looking ahead to our capital position at year end, we expect to continue to exceed "well-capitalized" thresholds and remain at levels consistent with the third quarter.

Steve that completes my remarks.

Steve Gurgovits, Chief Executive Officer
Thank you, Vince.

The third quarter was another positive quarter for FNB with revenue growth, loan and deposit growth, a stable net interest margin, good asset quality results and continued expense control. We are pleased that these fundamental key drivers delivered a strong 106 basis point return on average tangible assets.

We are cognizant of the industry-wide challenges presented, particularly with the expected prolonged low-rate environment and current elevated unemployment situation. With that said, we have substantial momentum built, our pipelines remain robust and we have an experienced team in position delivering solid results. Additionally, we continue to see positive benefits from the Marcellus Shale and Utica Shale in our footprint.

Before questions, I would like to take the opportunity to provide an update on the Parkvale acquisition and comment on a recent employer award received. First regarding Parkvale, with significant key events accomplished we continue to target a closing in early January of 2012. As you will recall, in May of this year we completed the capital raise that will be deployed for this acquisition and during the third quarter we filed Form S-4 and regulatory approval applications. The Parkvale shareholder meeting is scheduled for December 15 and we expect to provide updates as significant events occur.

On a final note, First National bank was recently named one the top places to work in Pittsburgh by the Pittsburgh Post-Gazette. We are extremely honored to have received this distinction as positive employee morale is an integral part of FNB's success. As another proof point, we have just recently received the results of an internal corporate culture survey. These results show that company-wide, FNB continues to build a strong, positive culture with excellent employee morale.

That concludes our remarks, and I would now like to turn the call over to the operator for questions.

Steve Gurgovits, Chief Executive Officer

Thank you. I would like to thank everyone for joining us today and for your continued interest in FNB.