Transcript – Fourth Quarter 2011 Earnings Call
January 24, 2012

Cindy Christopher, Investor Relations

Thank you and good morning everyone, welcome to our fourth 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".

All forward-looking statements involve risks, uncertainties and contingencies that could cause F.N.B. Corporation's actual results to differ materially from historical or projected performance. Please refer to the forward-looking statement disclosure contained in our fourth quarter of 2011 earnings release, 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 to reflect events or circumstances after the date of this call.

A replay of this call will be available until midnight on Tuesday, January 31, 2012 by dialing (877) 870-5176 or (858) 384-5517 and the confirmation number is 8184850. Additionally, a transcript of this call and the Webcast link will be posted, to the "Shareholder and Investor Relations" section of our corporate website.

It is now my pleasure to turn the call over to Mr. Steve Gurgovits, Chairman of the Board of Directors for F.N.B. Corporation. Steve?

Steve Gurgovits, Chairman of the Board of Directors

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 Delie, CEO, Vince Calabrese, our C.F.O. and Gary Guerrieri, our Chief Credit Officer.

I will be highlighting FNB's fourth quarter and full year 2011 results and accomplishments, Gary will review our asset quality and Vince Calabrese will provide additional detail on our financial results along with some expectations for 2012. Vince Delie will then close with final comments before the Q&A session.

As you are aware, the Board has recently taken several significant organizational actions, the most important of which is naming Vince Delie to CEO. As part of the reorganization, I have been named Chairman, a position I held prior to returning as CEO three years ago and Bill Campbell has been named Lead Director, a position he also held prior to my return.

I would like to take this opportunity to congratulate Vince on his election to Chief Executive Officer. Vince has been instrumental to FNB's success during the challenging past few years. He has consistently proven that he possesses the experience, leadership skills and strategic vision to successfully lead FNB in the coming years. I would also like to commend the Board of Directors and our succession committee for their diligent work during the process. We have a very strong team in place and we fully expect a seamless transition under Vince's leadership.

Next, I sincerely welcome Parkvale shareholders, employees and customers to FNB. As you know, the merger was effective January 1. We expect to complete the systems conversion on February 21 at which time customers will have full access to FNB's diverse suite of products.

Now, turning to the fourth quarter, FNB's fourth quarter results reflect the continuation of consistent positive performance from our key business drivers and provided a strong finish to a successful year. We are pleased to deliver fourth quarter earnings of $0.19 per diluted share, representing a 106 basis point return on average tangible assets. The quarter included successful loan growth, a stable net interest margin, and asset quality results reflecting positive trends with improvement from already good levels.

Total loans grew 5.1% on a linked-quarter annualized basis. This is the tenth consecutive quarter of organic growth for total loans and is an accomplishment we are very proud of,

especially given the challenging environment. The primary driver of our loan growth has been the Pennsylvania commercial portfolio and the fourth quarter was no exception with average loan growth of 6.8% annualized, the eleventh consecutive quarter of growth for this portfolio.

We also generated solid 5% annualized growth in the consumer loan portfolios driven by continued success in growing the home equity-related products. We recognized an opportunity to improve our market share for these products, which by the way are originated in our branches, in our local markets. Our team has done a fine job of executing this strategy.

Turning to deposits, linked-quarter growth in lower cost transaction accounts and customer repurchase agreements continued in the fourth quarter. These average balances grew nearly 3% annualized through new account acquisition combined with customers maintaining higher average balances.

In all, 2011 was a year of significant achievements for FNB and its shareholders. Earnings were $0.72 per diluted share, when excluding merger costs, representing a 22% increase over 2010 (after adjusting for the $10 million pension credit in 2010). Organic loan and deposit growth was strong, the net interest margin was stable and credit quality results were very good.

Other accomplishments in 2011 included the CBT acquisition completed in January, followed by FNB's inclusion in the S&P 600, the capital raise completed in May and the Parkvale acquisition announcement in June which, as I mentioned, closed on January 1st of 2012.

We are very pleased to deliver these results and accomplishments for our shareholders as we remain focused on creating shareholder value. These efforts, along with a dividend of 48 cents, delivered total shareholder return of 21% for 2011. We often benchmark our performance to regional and national peer groups, which basically consist of Mid-Atlantic and Mid-West banks, for the regional group, and national banks with assets between $4 and $20 billion. On a relative basis, FNB's 21% total return for 2011 compares very favorably, with the median total return for regional peers a negative 4% and for national peers a negative 5%.

We are thrilled to see these positive FNB results following our strong total return of 53% for 2010.

Now, I'll turn the call over to Gary for more detail on our asset quality results.

Gary Guerrieri, Chief Credit Officer

Thank you Steve and good morning everyone. The fourth quarter was very solid from a credit quality standpoint, with several of our key credit metrics continuing to move in a positive direction at an accelerated pace. Delinquency improved substantially during the quarter by 26 basis points to 2.31%, while non-performing loans plus OREO to total loans plus OREO was at a solid level of 2.05%, also reflecting a sizable improvement of 30 basis points. Both metrics reached their lowest levels since the third quarter of 2008. Net charge-offs for the quarter were 95 basis points annualized, of which 56 basis points were related to Florida, as we expected. We ended the full year at 58 basis points across all portfolios, a 19 basis point improvement over last year's performance, with lower charge-off levels in all three portfolios compared to the prior year. As a result of the Florida reappraisal activity and corresponding write-downs during the quarter, our reserve position was reduced by 13 basis points to 1.47%. Let's now take a closer look at the components of each portfolio.

Representing 95% of FNB's total outstanding loans, the Pennsylvania portfolio continues to perform very well. Net charge-offs for the quarter were 30 basis points annualized, which remained in line with our full year performance at a very good level of 29 basis points. Delinquency improved by 5 basis points on a linked-quarter basis to 1.73%, and non-performing loans plus OREO to total loans plus OREO improved by 8 basis points during the quarter to a very solid 1.13%. Both benefited from the lower level of non-accrual loans, which was driven by a $3 million payoff during the quarter on a non-performing commercial credit.

Moving next to Regency Finance, this $164 million loan book represents 2% of FNB's total loan portfolio, with metrics that remained fairly consistent and at good levels for the quarter. Delinquency improved 4 basis points over the prior quarter to stand at 3.75% as a result of lower early stage past due accounts. Net charge-offs ticked up to 4.21% annualized for the

quarter, though they still remain at historically good levels, with net charge-offs for the year of only 3.79%.

Turning next to Florida, our land portfolio is down to $64 million, consisting of $45 million in loans and $19 million in OREO, with the loan portion representing well under 1% of FNB's total loan portfolio. The total Florida loan portfolio was reduced by $22 million during the quarter, or nearly 13%, to end the year at $154 million. Included in this reduction were payoffs on two performing credits totaling $11.5 million, as well as the sale of a note for approximately $6 million related to a credit that we placed on non-accrual during the third quarter, successfully removing it from the books at our net position. We are also very pleased to report that subsequent to the end of the year, one of our larger projects was sold and paid in full, which will further reduce our exposure by $14 million in the first quarter of 2012.

As it relates to the reappraisal process in Florida, you will recall that approximately 60% of the Florida land related appraisals were scheduled for the fourth quarter. We are pleased to report that this process has concluded and the values were in line with our expectations. The resulting write-downs reduced our reserve on this portfolio from 11.6% to 8.4% as we utilized previously established reserves as planned.

As another year concludes, our Pennsylvania and Regency portfolios have withstood the challenges of the current economic cycle with continued solid results that are tracking very consistent with our planned expectations, a reflection of our sound underwriting and prudent risk management practices. In the Florida portfolio, we continue to show good progress with our strategy to reduce balances, and are encouraged by the increased level of investor activity that we have been experiencing as banks have increased their lending activity in Florida. As we reflect on the year, we are very pleased with the performance of our credit portfolios and our position at this point in the economic cycle.

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, fourth quarter results of $0.19 per diluted share reflect solid performance from our key drivers, providing a strong finish to the year. I will focus my remarks this morning on guidance for 2012 and some additional highlights of our fourth quarter operating results.

First, a high-level overview of our expectations for 2012 which I will discuss in additional detail throughout my remarks. We enter 2012 well-positioned to build on the successes of 2011 and expect to achieve continued organic loan and deposit growth through market share gains. We expect the pressure on yields resulting from the flat rate environment to be largely offset by improvements in funding costs. Fee income is forecasted to continue to see good organic growth and expense control will remain a key strategy for us. Credit quality is expected to perform well with continued improvements from our solid 2011 results. These positive expectations are based on the assumption of continued modest economic growth, with a year-over-year increase in GDP expected in the range of 2.0% to 2.5%.

Regarding the Parkvale acquisition first let me say that total assets of $1.8 billion were added to the balance sheet, with approximately $0.9 billion in loans and $1.5 billion in deposits. While these are prior to purchase accounting marks which will be finalized by the end of the quarter, we expect the credit mark to be consistent with the $40 million figure disclosed when the deal was announced. Second, we continue to expect accretion, excluding merger costs, in the 6% range for 2012. Merger costs are estimated to be $9.0 million.

Now, turning to the balance sheet, fourth quarter loan growth results reflect the continuation of positive trends. Total average loans grew 5.1% annualized, and we are pleased to see all portfolios experiencing growth. As Steve mentioned, strong linked-quarter growth of 6.8% annualized in our Pennsylvania portfolio was again the primary driver with positive results seen across most of our regions, particularly our Pittsburgh region.

Additionally, we have achieved linked-quarter organic consumer loan growth for the past seven quarters. Total average consumer loan balances increased 5.0% annualized in the

fourth quarter lead by very solid growth of 7.1% in home equity average balances. An increased focus in the field to improve our market share for these products has been effective.

Looking at the other components of earning assets, average securities declined $91.7 million on a linked-quarter basis, primarily reflecting our actions to better position the balance sheet by selling investments of $88.0 million and pre-paying FHLB debt of $136.0 million. This transaction resulted in $3.4 million in gains on sale offset by pre-payment charges of $3.3 million, which is included in non-interest expense. Additionally, balances invested on an overnight basis decreased $31.2 million to fund the continued strong loan growth.

We are very pleased with the successful loan growth trends over the past eleven quarters. For 2012, we expect to continue this momentum and are forecasting organic growth in the mid-single digits with a total expected increase in the loan portfolio in the high-teens after the addition of the Parkvale loan portfolio.

Looking at the securities portfolio, I commented that that there was a reduction in the fourth quarter due to the deleveraging transaction. Looking forward, we plan to re-build this portfolio and expect the portfolio as a percentage of total average assets to look more in line with where we have historically been – in the 18%-19% range.

On the funding side, we remain focused on attracting transaction deposits and customer repos. Growth in these relationship-based accounts, which support our net interest margin and deepen client relationships, equaled 2.8% 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.

Looking ahead to 2012, we are forecasting organic growth in transaction deposits and customer repos in the mid-single digits. We expect this growth will be partially offset by a continued managed decline in time deposits, netting to expected organic growth in total deposits and customer repos in the low single digits. We look for a total increase in deposits and customer repo balances in the high teens after the addition of the Parkvale acquired balances.

As reported, the margin was stable at 3.79%. As we have discussed in the past, managing to 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 seven quarters, an accomplishment given the current rate environment.

For 2012, we expect to see the margin reflect the flat rate environment and the addition of Parkvale. As expected, the Parkvale acquisition is forecasted to narrow the core-FNB margin by 10-12 basis points in 2012 which is consistent with our original modeling. We expect to minimize the impact of these items through continued improvements in our funding costs and deposit mix, as well as active balance sheet management. With that said, we look for growth in net interest income in the mid-teens and a full year margin in the mid-360's, inclusive of Parkvale. With the assimilation of Parkvale, the first quarter margin is expected to be in the low-370's. As with all of our acquisitions, we do expect to manage the margin of the acquired company to become more in line with our bank over the next few years.

Non-interest income results for the fourth quarter, excluding the gain on sale of securities of $3.5 million, reflect typical seasonality in many of our business lines, along with continued strong levels of swap fee revenue and increased gains on the sale of loans. The quarter included slightly lower service charge revenue as well as lower insurance commissions and wealth management revenue on a linked quarter basis, all reflecting seasonal influences as well as the effect of volatile market conditions on the wealth management revenue. Swap fee revenue, included in other non-interest income, remained strong given the level of commercial lending activity during the quarter with full year results for swap fee revenue representing a historical high. 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.

For 2012, we expect to continue to grow fee revenue, and are targeting an increase for non-interest income in the mid-teens, reflecting strong growth for core FNB in the mid-single digits combined with leveraging the Parkvale acquisition.

Turning to expenses in the fourth quarter, total non-interest expense, excluding the FHLB pre-payment penalty and $393k in merger costs, decreased $1.1 million or 6.1% annualized, due to lower OREO expense and other non-interest expense items partially offset by higher salaries and benefits costs. OREO expense declined as a result of fewer valuation adjustments and lower than planned tax assessments while higher salaries and benefits reflect an increase in incentive compensation resulting from higher profitability and performance-based awards.

Looking forward, we are expecting run-rate non-interest expense to increase in the low single-digits for core-FNB and in the low-to-mid teens range, inclusive of Parkvale. This is treating merger costs and the fourth quarter 2011 FHLB pre-payment penalty as non run-rate items. Additionally, we are committed to investing in our e-delivery strategy, significantly enhancing our delivery channels for online banking and mobile banking. This initiative is expected to add $1.5 million to 2012 expenses, given the initial year of operation, with revenue leverage gained in subsequent years. Expense control remains a key strategy for us and the costs associated with this initiative will be largely offset by other operating efficiencies and we are targeting a full year efficiency ratio in the high 50% level. We expect the first quarter to be approximately 60% as the beginning of the year involves resetting employee benefits, such as payroll taxes, and seasonally higher occupancy costs.

Switching over to credit quality. As Gary discussed, we remain very pleased with the results, with metrics trending positively and within our expectations throughout 2011. Looking to 2012, we expect overall credit quality performance to remain very good. The Pennsylvania and Regency portfolios are currently performing at already good levels, and we look to see steady, gradual improvement for these portfolios combined with significant improvements in the Florida portfolio as we continue to focus on exposure reduction. With this in mind, we are forecasting the provision for loan losses to be consistent with 2011, reflecting significant improvement in the Florida portfolio offset by expected increases in the Pennsylvania portfolio to support the strong planned loan growth, which keep in mind, includes Parkvale-related growth. We expect a meaningful reduction in net charge-offs, driven by a 50% improvement in Florida-related charge-offs with continued very good, consistent performance in Pennsylvania and Regency. Lastly, the allowance to loans ratio, including the credit mark,

is projected to increase slightly from year-end 2011 levels as a result of the Parkvale acquisition and related credit mark.

Next, let's discuss the effective tax rate for the fourth quarter and expectations for 2012 – the fourth quarter effective rate on a GAAP basis was in-line with our normal run-rate, while higher compared linked-quarter given adjustments in the third quarter. As we look ahead into 2012, we expect an effective tax rate in the normal 27-28% range on a GAAP basis.

Lastly, looking at our capital position at year end, these levels reflect the benefit of the capital raise completed in May which, as of January 1st, has been deployed for the Parkvale acquisition. As a result, for 2012, we expect to continue to exceed "well-capitalized" thresholds with levels very close to those announced in June on a pro-forma basis.

Now I would like to turn the call over to Vince Delie for his remarks.

Vince Delie, Chief Executive Officer
Thank you, Vince.

The fourth quarter was another positive quarter for FNB and a strong finish to 2011. We continued to effectively execute our relationship-based model, which is first and foremost centered on the strength and experience of our bankers. We remained focused on gaining market share through new client acquisition and deepening existing client relationships. The results of these efforts are apparent in the solid organic loan and transaction deposit growth we achieved throughout the year. The margin remained stable through the alignment of strategies in the field to generate quality loan growth and low cost deposits combined with a very active ALCO process. Credit quality results were very good and trended positively throughout the year and we continued to focus on expense control.

As we look ahead to 2012, FNB is well-positioned to see continued loan and deposit growth. We have substantial momentum built, our pipelines remain strong and we have a talented team delivering superior results and client satisfaction. This is evidenced by FNB's recent recognition as a recipient of six 2011 Greenwich Excellence Awards. The most notable of the

six awards being overall satisfaction for Small Business Banking at the national and Northeast regional level and overall satisfaction for Middle Market Banking at the Northeast regional level.

In line with a growth-oriented focus, we will continue to make appropriate investments that will support sustainable growth, improve our competitive position and fulfill our clients' needs. As Vince mentioned, we are currently in the process of executing our e-delivery strategy, recently rolling-out an integrated bill payment platform while preparing for the scheduled implementation of enhanced online banking and a new mobile banking app in the coming months. This investment will provide clients greater flexibility and further enhance our ability to attract new clients.

We look forward to successfully integrating Parkvale and benefiting from the opportunities our enhanced presence in the Pittsburgh market will provide, allowing us to leverage our success in the market. A positive lift to the overall economy from Marcellus Shale and Utica Shale should also continue in our footprint.

With that said, we are cognizant of the industry-wide challenges present, particularly with the prolonged low-rate environment. As Vince discussed, our strategy here will remain consistent and focused on generating quality loan growth and managing funding costs to grow net interest income.

Before questions, I would like to acknowledge Steve Gurgovits and the significant contributions he has made to FNB. Steve has fostered an FNB culture centered on creating shareholder value, providing exceptional service to our clients, serving our communities and building excellent employee morale. It has been a privilege to work under his leadership. I look forward to continuing to work with him, in his role as Chairman, as well as with the Board of Directors and the entire FNB team as we remain committed to delivering exceptional performance and solid shareholder returns.

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