F.N.B. Corporation

Transcript

Cindy Christopher, Investor Relations

Thank you and good morning everyone, welcome to our first 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 first 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 Tuesday, May 3, 2011 by dialing (877) 870-5176 or (858) 384-5517; the confirmation number is 2152369.

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?

Stephen Gurgovits, Chief Executive Officer

Thank you, Cindy.

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

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

Looking at results for the quarter, earnings were 16 cents per diluted share when excluding merger costs, representing a 94 basis point return on average tangible assets. This is a nice progression from $0.15 cents last quarter (when excluding the one-time pension expense credit), and $0.14 cents in the year ago quarter.

Last quarter, we discussed our commitment to continue building on the strong momentum created. We are pleased that the results for the first quarter reflect this, with solid growth seen for revenue, organic loans and deposits, an expanded net interest margin, very good credit quality results for the Pennsylvania portfolio and the successful completion and integration of the Community Bank & Trust acquisition.

Looking at our positive loan growth trends, this marks the seventh consecutive quarter of organic growth for total loans and the eighth consecutive quarter of organic growth for our Pennsylvania commercial portfolio.

Organic growth in the Pennsylvania commercial portfolio was nearly 11% annualized this quarter, with positive results seen across all of our core markets. This growth continues to reflect market share gains, as line utilization rates remain essentially flat and near historical lows.

We also continue to be successful in attracting new deposit accounts. We remain focused on lower cost, relationship-based transaction and customer repurchase agreements which grew organically over 4% annualized.

I mentioned the completion and integration of Community Bank & Trust. The conversion went seamlessly in mid-February and we are now leveraging all of our products and services in this footprint and building staff where needed.

I would like to now turn the call over to Gary for his remarks on the first quarter’s solid asset quality results.

Gary Guerrieri, Chief Credit Officer

Thank you Steve and good morning everyone. Overall asset quality results for the first quarter continue to trend positively, reflecting very solid performance for our Pennsylvania and Regency portfolios. The Florida portfolio continues to perform as expected as we focus on reducing our exposure there.

Steve mentioned that we completed the CB&T acquisition on January 1st. As expected, the impact on our credit metrics was minimal and I will walk you through these items where needed.

First, in looking at the Company's reserve position, the total reserve on a GAAP basis stands at 1.64%. As you know, consistent with purchase accounting rules, acquired portfolios are booked at fair market value. The impact of these marks and the corresponding increase in total loans, without a reserve held against them, effectively reduces FNB's reserve position by 10 bps. Without CB&T, our reserve would have been flat, quarter over quarter. Including the credit mark on the CB&T acquired portfolio, we have 2.04% set aside against FNB's total loan portfolio. We are pleased that the credit mark of approximately $27 million, after write downs conducted in late 2010 by CB&T, is essentially equal to our estimates communicated last August and validates the effectiveness of the thorough due diligence process we have in place to identify credit risk. Looking at NPL's, the ratio of non-performing loans and OREO to total loans and OREO improved 20 basis points to 2.54% while total delinquency at 2.73% improved slightly over year-end levels. Charge-offs reflect very favorable performance at 42 bps, annualized.

Let's now take a brief look at each portfolio, beginning with Pennsylvania.

At quarter-end, the $6.2 billion Pennsylvania portfolio represented 95% of FNB's total outstanding loans. Charge-off performance for this portfolio continues to be very good, with annualized net charge-offs of 27 basis points for the first quarter improving on already solid results. Total delinquency at the end of the quarter of 1.90% remains at historically good levels with the linked quarter increase of 10 bps reflecting the acquisition. Excluding CB&T, total delinquency continues to trend positively and would have improved by 10 basis points, on a linked quarter basis. The ratio of non-performing loans and OREO to total loans and OREO improved 5 basis points to 1.39%.

Turning to Regency Finance, this $158 million portfolio represents 2.4% of FNB's total loan portfolio and continues to demonstrate strong and consistent results. Charge-offs for the quarter remained in line with the prior quarter and the portfolio remains well reserved at 4.20%. Delinquency results are very positive at 3.93%, reflecting the lowest level of delinquency since June, 2007.

Moving to Florida, during the quarter we were pleased to have completed the sale of a $3.4 million condominium project held in OREO. This transaction, for which we held a 10.5% interest in, was sold for $35 million and represents continued investor interest in the Florida real estate market. The sale of this project resulted in a slight recovery and more importantly, eliminates the remaining condo exposure held in the

portfolio and contributed to a $4.9 million or 6.4% reduction in Florida-related non-performing loans and OREO.

As we have previously discussed, our focus in Florida continues to be the land-related portfolio. At quarter-end, our exposure here including OREO was $76 million, comprised of $22 million in OREO and $54 million in loans. The loan portion represents less than 1% of FNB's total loan portfolio and a 25% reduction in land-related exposure on a year-over-year basis.

In summary, our Pennsylvania portfolio continues to perform very well, with credit metrics that have been trending positively over the last several quarters while the Regency portfolio continues to perform consistently well. Additionally, we are pleased that the impact from CB&T was as expected.

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.

The first quarter results reflect strong performance and an excellent start to 2011. We have addressed many of these details between last night's earnings release and the comments provided by Steve and Gary and I will focus my remarks on additional highlights of key drivers of our operating results and guidance for the remainder of the year.

First, looking at our expectations for the remainder of the year. With the quarter's results validating, and in several cases exceeding, our expectations we are reaffirming our guidance given in January for loans and deposits and offering enhanced guidance for margin, fee income, expenses and asset quality. I will discuss these throughout my remarks.

Before I touch on the highlights, I would like to note that the acquisition of CB&T obviously contributed to our balance sheet growth during the quarter. With this in mind, I will focus on the organic growth results we delivered in the quarter for balance sheet drivers.

We continue to enjoy success growing both loans and deposits. Organic loan growth results reflect the continuation of positive trends with total average loans growing 5.5% annualized in the first quarter, driven by linked-quarter growth in our Pennsylvania commercial portfolio of 10.7% annualized.

Consumer loan balances, which were essentially flat on an organic basis, reflect softer demand and lower volume which is typical in the first quarter of the year.

We are very pleased with the overall organic growth in loans, and commercial lending saw a lift across all of our markets. We view these results as a great start to the year. As mentioned we reaffirm expectations for full year 2011 organic loan growth in the mid-single digits, excluding any impact of Florida reductions.

On the deposit side, we remain focused on attracting lower cost, relationship-based deposits and organic growth for transaction deposits

and customer repos was 4.3% annualized in the first quarter. Given this focus on gathering new transaction accounts combined with the liquidity position of the balance sheet, there was a reduction in organic time deposits of 6.9% annualized, reflecting pricing decisions for these products. Again, we reaffirm our guidance of expected low-single digit organic growth in total deposits and customer repos and mid-single digit organic growth in transaction deposits and customer repos for the full year of 2011.

Regarding our funding, a core balance sheet strategy for us has been to fund loans with customer relationship balances. It is important when looking at our balance sheet to keep in mind that there are customer-funded items shown as debt consistent with GAAP reporting requirements.

In fact, between deposits, commercial customer repos and subordinated notes sold by Regency through their retail outlets to fund its balance sheet, 96% of our total funding is based on customer relationships, with only 4% being wholesale funds. This provides us with significant flexibility to fund future loan growth.

Moving to the margin for the first quarter, it expanded 4 basis points to 3.81% through continued enhancements of our funding mix and active pricing management. Another of our key strategies and one we have been very successful at is maintaining a stable margin. Consistent with this focus, we expect the margin to remain stable at current levels for the remainder of the year, which is higher than our previous guidance.

Non-interest income results for the first quarter were in line with expectations with the effect of seasonally lower first quarter customer service fees and lower mortgage-related gains essentially offset by solid increases in other revenue items. Included in the quarter was seasonally higher insurance income reflecting contingent fee revenue, increased wealth management revenue and continued strong swap fee revenue.

Wealth Management results included growth of 14.8% for securities commissions and a 12.8% increase in trust income reflecting improved market conditions and the successful results of new initiatives in place to generate additional revenue. These initiatives are in the early stages and include a more effective sales management process and re-aligned incentive programs. We are pleased to see these results at this early stage of the process.

Additionally, in looking at the other non-interest income component, the decrease compared to the prior quarter is a result of $1 million in success fee revenue realized last quarter at F.N.B. Capital Corporation.

Regarding guidance for the remainder of the year, we are targeting a quarterly non-interest income run rate in the $29 to $30 million range.

Turning to non-interest expense, the first quarter's expenses included $4.1 million in merger-related costs, seasonally higher personnel and occupancy costs and CB&T's expense base. Additionally, when comparing linked-quarter non-interest expense, recall that the fourth quarter included the $10.5 million one-time credit to pension expense for the plan amendment.

As we enter the second quarter, we are beginning to realize the full cost saves from the acquisition, projected to be approximately $1 million per quarter. Looking forward, we are targeting a quarterly non-interest expense run rate in the $69 to $70 million range for the second quarter, trending down towards $68 million by year end which would translate into an efficiency ratio approaching 60%.

Switching over to credit quality, as Gary discussed, we are pleased with another quarter of solid results for FNB. For the remainder of the year, we continue to expect levels of non-performing assets to gradually decline, consistent with an improving economy. Given the first quarter's provision for loan losses, we expect full year 2011 provision for loan losses to be approximately 25% better than 2010 levels, which you may recall is on the better end of our previous guidance. This provision takes into consideration the possible reappraisal risk for Florida land-related properties, assuming a 10% year-over-year reduction in values. We reaffirm our expectation for a meaningful reduction in net charge-offs, driven by improvement in Florida-related charge-offs and continued very good results for the Pennsylvania and Regency portfolios.

Regarding our capital position, capital ratios are expected to continue to exceed "well capitalized" thresholds. Capital levels at the end of the first quarter reflect the CB&T acquisition consistent with our original projections and we expect to return to year-end 2010 levels in less than 12 months for TCE and 18 to 24 months for the risk-based ratios.

Steve that completes my remarks.

Stephen Gurgovits, Chief Executive Officer (Pre-Q&A)

Thank you, Vince.

As you know, we place a great deal of importance on our bankers being a key driver to delivering successful results and I would like to briefly touch on some of the recent additions to the team.

As part of strategic revenue enhancing initiatives and realignments that are underway, we announced the hiring of a new President of the insurance agency. This individual has tremendous insurance industry experience to lead this affiliate in leveraging the Bank's delivery channels. Additionally, we added a very experienced commercial lender to lead the team in our expanded Scranton-Wilkes-Barre footprint. We have also brought on a banker with syndication experience to assist in managing our larger client relationships. These are just three examples of FNB continuously attracting highly talented individuals as an employer of choice.

In closing, all-in-all we feel we had a great quarter to start 2011 and we look to build on this momentum. Our pipelines are strong and we expect to see continued loan growth, deposit growth and solid credit quality results.

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

Stephen Gurgovits, Chief Executive Officer (Closing)

Thank you. I would like to thank everyone for joining us today and for

your continued interest in FNB.