



## **Transcript - Third Quarter 2010 Earnings Call, October 26, 2010**

### **Cindy Christopher, Investor Relations**

Thank you Jamie and good morning everyone, welcome to our third quarter of 2010 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.

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, particularly the recently enacted Dodd-Frank legislation and the recently implemented Regulation E, 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 until midnight on Tuesday, November 2, 2010 by dialing (877) 870-5176 or (858) 384-5517; the confirmation number is 7793246.

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](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**

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. Vince will highlight our third 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 and Chief Revenue Officer.

To begin, we are very pleased with our third quarter results. Our earnings for the quarter were 15 cents per diluted share, representing an 87 basis point return on average tangible assets. We were again successful in growing both loans and deposits, our margin was stable and we remain pleased with the credit quality results for our core portfolios.

In addition, we were very pleased to announce during the quarter the pending acquisition of Community Bank & Trust. This acquisition will bring our total assets to over \$9.5 billion, making us the fourth largest Pennsylvania based bank. We will be adding 15 bank branches across five counties. This is a strategic market extension for us in Northeastern Pennsylvania that will enhance our existing presence in the attractive Scranton--Wilkes-Barre MSA, one of the larger markets in Pennsylvania. This market extension will provide us with a real opportunity to leverage our diverse products and services, to both deepen existing customer relationships as well as attracting new relationships. Through our experienced commercial and retail bankers, we will offer our sophisticated wealth management, treasury management and private banking services and also capitalize on commercial and retail lending opportunities. Another attractive and strategic aspect of the deal is the further expansion of our footprint within the promising Marcellus Shale area.

We are pleased with the terms of the acquisition and expect the merger to be immediately accretive to EPS.

With closing targeted for December of this year, our seasoned integration team is actively preparing for a successful transition. Also, we have had the opportunity to hold several meetings with the employees of Community Bank & Trust, and we look forward to working with these talented bankers to enhance the already attractive franchise.

Now to discuss our third quarter solid loan and deposit growth. During the third

quarter, we continued to gain market share. On a linked-quarter annualized basis, total average loan growth was 4.1% and average deposit and treasury management growth was 4.6%.

Driving loan growth for the third quarter was 14.5% annualized growth in our home equity portfolio. This growth reflects the success of an increased focus through our branch network, with an offering of new products and promotional pricing initiatives. Let me remind you that, consistent with our home equity portfolio strategy, these loans are branch originated.

Additionally, our core Pennsylvania commercial portfolio continued to grow for the sixth consecutive quarter. We are pleased with these results as loan demand remains soft and our commercial line utilization rate remains near historical lows. Year-to-date, our commercial bankers have been successful in adding over 100 significant new client relationships. These are larger clients of our commercial banking units and resulted in over \$345 million in new commitments year-to-date with related outstandings at quarter-end of approximately \$221 million. This success is primarily attributable to the robust calling efforts of our commercial bankers. We expect these relationship-building efforts to produce further benefit as we experience continued improvement in the economy and loan demand eventually increases.

We are also very pleased with the deposit growth we again experienced. Average deposit and treasury management balances grew 4.6% annualized and lower cost transaction balances grew 5.4% annualized, linked-quarter. This growth reflects our ongoing success in new account acquisition combined with customers continuing to maintain higher balances.

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

**Gary Guerrieri, Chief Credit Officer**

Thank you Steve and good morning everyone. Looking at the third quarter, we continue to be very pleased with the overall performance of our Pennsylvania and Regency portfolios, while Florida continues to perform in line with expectations. Let's now take a brief look at each portfolio, beginning with Pennsylvania.

At quarter-end, the \$5.6 billion Pennsylvania portfolio represented 94% of FNB's total outstanding loans, with solid asset quality metrics that continue to trend favorably. Charge-off performance for the quarter of 32 basis points annualized matched the prior quarter and remained in line with our historically good results, while delinquency improved 9 bps to stand at 1.82%. Additionally, non-performing asset levels improved once again on a linked quarter basis, reflecting the stability and solid performance of this portfolio.

Turning to Regency Finance, we also continue to be pleased with the strong and consistent results of this portfolio, with a loan book of \$162 million at quarter end.

Credit quality metrics showed continued stability as delinquency held at 3.97% and net charge-offs increased only slightly to 3.84% annualized. The portfolio is well reserved at 4.20%.

Moving to Florida, our primary focus continues to be the Florida land-related portfolio. At quarter-end, the total exposure of \$94 million included \$79 million in loans and \$15 million in OREO, with the loan portion representing only 1.3% of FNB's total loan portfolio at the end of the quarter. The \$4 million reduction in total exposure from the prior quarter was driven by charge-offs of \$3.7 million. The write-downs were primarily attributed to one credit, which was transferred to OREO as we work to liquidate the property. As you will recall, we had one large land credit remaining on accrual status. During the quarter, we moved this \$20 million loan to non-accrual. This credit remained current and was adequately collateralized, however, there is some uncertainty regarding the borrower's ability to continue to remain contractually current. The net effect of the activity in the Florida land portfolio during the quarter resulted in a \$16.8 million increase in non-performing loans plus OREO for that portfolio, now at \$85.2 million.

I would now like to go into more detail with you on the reappraisal risk for the Florida land-related portfolio discussed during last quarter's call. We have updated approximately 30% of the appraisals on the land portfolio through the end of the third quarter and have seen property value reductions in the 20% to 30% range on a year-over-year basis. During the third quarter, we continued our strategy to provide additional reserves to the portfolio by increasing the reserve position by nearly 200 basis points to 13.64%. We expect to see continued reductions in property values during the fourth quarter reappraisal process, but do not expect any impact to our provision for loan losses. To mitigate the reappraisal risk, we continue to build adequate reserves and will be positioned to cover year-over-year price declines at the high end of the range.

In summary, we are very pleased with the continued performance for our Pennsylvania and Regency portfolios, while we continue to take actions to reduce our Florida portfolio exposure. Across our footprint, we expect the Pennsylvania and Regency portfolios to continue to benefit from what has been a relatively stable economy, as unemployment levels have remained below national averages and property values have held or experienced only slight reductions in our key markets. The ongoing resilience of our regional economy and our consistent underwriting and risk management standards have served us well.

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.

We have addressed many of the third 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 and an update of our guidance for the fourth quarter.

First, regarding the acquisition of Community Bank & Trust, we are targeting a closing in late December. Given this timing, we expect to record certain one-time costs during the fourth quarter. As previously disclosed, we estimate total one-time costs of \$6.5 million pre-tax, with approximately two-thirds coming in the fourth quarter. Regarding other impacts on fourth quarter financial results, we expect to record normal purchase accounting on the balance sheet and minimal income statement impacts outside the one-time costs. Looking ahead to 2011, we expect this deal to be accretive excluding any remaining one-time costs.

Looking at our third quarter performance ratios, we are pleased with a return on tangible common equity of 14.56% and a return on tangible assets of 87 basis points. Additionally, we are pleased with the solid and consistent results for our business drivers – continued loan and deposit growth, a stable margin, and good credit quality metrics for our Pennsylvania and Regency portfolios.

Now turning to the balance sheet, let's begin with loans. As Steve mentioned, we generated solid loan growth of 4.1% annualized in the third quarter, driven by growth in our home equity portfolio.

For the fourth quarter, we look for growth to be in the low-single digits. This excludes any impact from further reductions in the Florida portfolio and is based on our expectation that the economic recovery continues at the current pace.

Looking at the funding side, we are pleased with the solid third quarter total annualized growth in deposits and treasury management balances of 4.6%. Looking ahead to the fourth quarter, we expect total deposit and treasury management balance growth to be in the low single digits with an improved funding mix as we continue to manage controlled decreases in time deposits as they re-price.

During the third quarter, the margin expanded 1 basis point to 3.78%, taking into account that the second quarter margin included a four basis point benefit from certain non-accrual loans returning to accrual status we discussed last quarter. Therefore, as adjusted, the third quarter margin was stable as expected compared to the prior quarter, and we continue to manage our interest rate risk position to remain neutral. Given this, we look for the margin to remain stable at current levels in the fourth quarter.

Non-interest income totaled \$27.8 million for the third quarter. There were increases in other fee income categories that offset the Reg. E impact on service charges. Positive results were demonstrated by increased swap fee revenue, as well as higher gains and title insurance commissions given the increased residential mortgage volume for the quarter. When excluding \$600,000 in OTTI charges and the \$1.6

million gain harvested in F.N.B. Capital Corporation from the prior quarter, non-interest income increased 4.0% annualized for the third quarter.

On the topic of Reg. E, the third quarter decline in service charges reflects the impact on overdraft fee revenue for 1 ½ months. We are continuing with our opt-in efforts through a variety of channels. Based on our results through the end of the third quarter, we reaffirm an estimated impact for 2010 of about 1 cent per share, with about two-thirds of this expected to affect the fourth quarter.

We expect total non-interest income for the fourth quarter to be consistent with the third quarter. This takes into account normal seasonal fluctuations in fee income and excludes expected Reg. E impact.

Turning to non-interest expense, the linked-quarter increase reflects higher costs related to increased consumer loan volume and higher Florida-related OREO costs. Additionally, higher personnel costs were primarily due to commissions tied to increased insurance and mortgage related revenue that we realized during the quarter. The efficiency ratio for the third quarter was 61.5% and we project a similar efficiency ratio for the fourth quarter.

Gary provided an excellent overview of our credit quality. We are pleased with the third quarter delivering solid credit quality results for our Pennsylvania and Regency portfolios. Looking ahead to the fourth quarter, we expect provision to be consistent with the third quarter as we continue to reserve for the Florida land reappraisal risk as Gary discussed earlier. Given the number of reappraisals due in the fourth quarter, we do expect increased charge offs flowing through the Florida allowance as we right size the remaining components of the land portfolio and thereby utilize the portion of the allowance allocated to this segment of the portfolio.

Regarding our capital position, we expect our capital ratios for the fourth quarter to remain 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. Again, we are pleased with our solid third quarter results and with the pending Community Bank & Trust acquisition. Our loan and deposit growth and healthy fee income continues to reflect the successes of our efforts, initiatives and diverse products. Our team has a dedicated focus on new client acquisition as well as deepening client relationships through cross-selling opportunities that provide value to our clients. We have invested in initiatives such as our advanced sales management platform to enhance our success as relationship bankers.

I would now like to take this opportunity to provide an update on our consumer

finance subsidiary, Regency Finance. Regency Finance, with 56 branches, \$162 million in loans at quarter-end and year-to-date return on equity of 32.8%, is one of our most profitable subsidiaries. Due to the success of Regency and recent competitive disruption, we are pleased to announce plans to open eight de-novo branches – one in Tennessee scheduled to open in November and seven in northwestern Kentucky. Kentucky is a new state for us to operate in and strategically aligns contiguously with our current Regency footprint of Pennsylvania, Ohio and Tennessee. We target these seven Kentucky branches to begin opening in December of this year.

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