F.N.B. Corporation

Transcript

Cynthia Christopher, Investor Relations

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

For more information about risks and uncertainties which may affect us, please refer to the forward-looking statement disclosure contained in our fourth quarter and full year 2010 earnings release, and in our reports and registration statements filed 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.

A replay of this call will be available until midnight on Tuesday, February 1, 2011 by dialing (877) 870-5176 or (858) 384-5517; the confirmation number is 4628644.

Additionally, 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 fourth 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 fourth quarter performance and Gary will review our asset quality.

Also with me today for the question and answer 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.

I would like to begin by congratulating Vince, Brian and John Williams. As you have probably heard by now, last week our board promoted Vince Delie to President of F.N.B. Corporation as well as naming him C.E.O. of First National Bank of Pennsylvania. Brian Lilly was promoted to Vice Chairman of F.N.B. Corporation and John Williams, who previously was responsible for First National Bank's Pittsburgh region was promoted to President of First National Bank of Pennsylvania.
These promotions are well deserved and consistent with the continuing work of our succession committee. I congratulate Vince, Brian and John.

Now to the 4th quarter, we are very pleased with our fourth quarter and full year results. Our earnings for the quarter were 21 cents per diluted share, representing a 115 basis point return on average tangible assets. The quarter included a 6 cent net benefit from amending the pension plan as well as merger costs related to the CB&T acquisition. Absent these items, our core operating earnings were 15 cents per diluted share, consistent with our expectations. For 2010, our earnings were 65

cents per diluted share, more than double our 2009 results. We are pleased to deliver these results for our shareholders and believe that we are well positioned to build on our success and continue the momentum we have established as we enter 2011.

Looking at the fourth quarter, we were again successful in growing both loans and deposits, maintaining a stable margin and we remain very pleased with the credit quality results of our Pennsylvania and Regency portfolios. Additionally, the reappraisal results discussed with you last quarter for the land-related portion of our Florida portfolio were slightly better than our expectations. Later in the presentation, Gary and Vince will elaborate more on the fourth quarter results and provide guidance for 2011.

Now to discuss our continued success in growing both loans and deposits. On a linked-quarter annualized basis, total average loan growth was 3.1% and average deposit and treasury management growth was 4.5%. Driving loan growth for the fourth quarter was the 10.8% annualized growth in our home equity portfolio. This represents the third consecutive quarter of successful growth in this portfolio through a continued focus in our branch network of new products and promotional pricing initiatives. Consistent with our home equity portfolio strategy, these loans are all branch originated.

Additionally, we are pleased to report that our Pennsylvania commercial portfolio continued to grow for the seventh consecutive quarter. With line utilization rates remaining near historical lows, we are particularly pleased given these results primarily reflect market share gains. For instance, in 2010 our commercial bankers were successful in gaining nearly 170 significant new middle market client relationships. This represents a 30% increase over 2009 gains, a meaningful accomplishment, validating the effectiveness of our middle market model. These relationships are large clients of our commercial banking units and resulted in over $500 million in new commitments last year with related outstandings at year-end of

approximately $350 million. We expect these relationships to produce future benefits from cross-sell opportunities and additional loan requests, assuming loan demand increases consistent with an improving economy.

We were also successful in attracting new deposit accounts and gaining market share. On a linked-quarter annualized basis, average deposit and treasury management balances grew 4.5% with lower cost transaction balances growing nearly 10%.

Lastly, I would again like to welcome the Community Bank & Trust customers, shareholders and employees. We are very proud to have received all required regulatory approvals without any stipulations and are pleased to have completed the acquisition on January 1. Integration will be completed in mid-February and we look forward to future success in our expanded footprint.

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 fourth quarter, we continue to be very pleased with the overall performance of our Pennsylvania and Regency portfolios, while Florida performed slightly better than expected as we continue to work to reduce our land related exposure. Let's now take a brief look at each portfolio, beginning with Pennsylvania.

At quarter-end, the $5.7 billion Pennsylvania portfolio represented 94% of FNB's total outstanding loans and reflected positively trending asset quality metrics, with linked-quarter improvements in delinquency and non-performing asset levels that were driven by a $4 million decrease in non-performing loans in the commercial portfolio. The credit metric trends that we are experiencing reflect the stability of the individual segments that comprise the Pennsylvania portfolio; for instance, our mortgage portfolio's performance during the fourth quarter was marked by a slight improvement

to delinquency and very good charge-off levels at only 9 bps annualized, with losses for the year at 12 bps. The remainder of the consumer portfolio continues to demonstrate solid results as well. Additionally, we are pleased with the resilience of our non-owner occupied CRE loan portfolio, which has held up well throughout the economic downturn as losses for the year were only 38 bps and delinquency levels stood at 2.15%.

The charge-off performance for the Pennsylvania portfolio was 36 basis points for the year and remains in line with our historically good results. During the fourth quarter, charge-offs were slightly elevated at 48 basis points annualized, and can be largely attributed to write downs of $1.8 million on two credits that were obtained through prior acquisitions, both of which had adequate reserves held against them.

Turning to Regency Finance, this $163 million portfolio represents 2.7% of FNB's total loan portfolio and continues to demonstrate strong and consistent results as credit quality metrics remained in line with the prior quarter's results. Charge-offs for the fourth quarter improved slightly on a linked quarter basis to 3.78% annualized, bringing total charge-offs for the year to 3.83%. The portfolio remains well reserved at 4.20%.

Moving to Florida, we continue to focus our efforts on reducing exposure in the land-related portfolio. At quarter-end, our exposure including OREO was down $16 million to stand at $78 million, comprised of $15 million in OREO and $63 million in loans, with the loan portion representing 1.0% of FNB's total portfolio. The linked quarter decline in the loan balance was driven primarily by charge-offs of $12.9 million that resulted from the reappraisal of the remaining land related portfolio, as well as $2.3 million in pay downs, most of which were related to non-performing loans.

You will recall that the majority of our Florida land related appraisals were due in the fourth quarter. We are pleased to report that this process has concluded and the resulting values came in slightly better than planned.

Moving to the Company's reserve position, the total allowance was down 20 bps on a linked quarter basis to stand at 1.74% at year-end. The Pennsylvania and Regency portfolios both remained stable at good levels of 1.43% and 4.20%, respectively, with all movement in reserve levels attributed to the Florida portfolio. Consistent with our plan, we utilized the previously established Florida reserves during the fourth quarter against the $12.9 million in write downs mentioned earlier. We continue to maintain an 8.95% reserve for the total Florida portfolio, which includes both land and income-producing properties.

In summary, we are very pleased with the performance of our core portfolios, as Pennsylvania remained solid with improving credit metrics that have been trending positively over the last several quarters, while the Regency portfolio continued to perform well. Looking to 2011, we expect ongoing solid performance from our Pennsylvania and Regency portfolios, which will continue to benefit from our prudent risk management and underwriting standards as well as further improvement in the economy.

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.

Given that we have addressed many of the fourth quarter details between last night's earnings release and the comments provided by Steve and Gary, I will focus my remarks on guidance for 2011 and some additional highlights of our operating results for the fourth quarter.

Looking ahead to 2011, we enter the year well positioned. Last year's successes for FNB included solid loan growth as a result of market share gains, an improved funding mix through strong growth in transaction deposits and treasury management

balances, a stable margin, improved asset quality, healthy fee revenue, continued expense controls and an acquisition that enhances our footprint.

In looking ahead to our projected performance, I will first discuss a few primary economic assumptions for 2011. First, we assumed that economic growth will continue its relatively slow recovery, with a year-over-year increase in GDP in the range of 2.5% to 3.0%. Our forecast includes the expectation of a continued low interest rate environment with no change in fed funds and minor increases in the key 2 year and 5 year rates. Additionally, we assumed that unemployment will continue its gradual and consistent improvement throughout 2011.

With these fundamental assumptions in mind, I will turn to our balance sheet. Looking at loans, in the fourth quarter, we are very pleased to have delivered the seventh consecutive quarter of growth in our Pennsylvania commercial loan portfolio and our sixth consecutive quarter of growth in total loans. For 2011, we expect to continue this momentum and are forecasting total organic loan growth in the mid-single digits driven by growth in both the commercial and consumer portfolios. This forecasted total growth excludes any impact from the continued exiting of Florida credits.

Turning to funding, we are pleased with the continued growth in total deposits and treasury management balances of 9.7% annualized in the fourth quarter. For 2011, we are forecasting organic growth in transaction deposits and treasury management balances to be in the mid single-digits, primarily attained through continued new account acquisition. We expect this growth will be partially offset by a continued managed decline in time deposits this year, netting to an expected growth in total deposits and treasury management balances in the low single digits. This will allow us to further enhance our funding mix, reduce our cost of funds and remain focused on relationship-based transaction deposits to fund the expected loan growth. The loan to deposit and treasury management ratio is projected to remain in the low-to-mid 80% range, providing ample capacity to lend.

During the fourth quarter, the margin was stable at 3.77%. This performance is consistent with our overall strategy of managing to a neutral interest rate risk position. We do not make bets on the direction of interest rates and have a very active ALCO and pricing committee that focus on managing our margin results. For 2011, we look to continue our neutral interest rate risk position and to maintain a margin stable to slightly higher from current levels throughout the year.

Non-interest income remained strong in the fourth quarter, totaling $29.5 million, an increase of 6.3% compared to the prior quarter. Increases in trust income, mortgage-related gains and other fee income more than offset the Reg E impact on service charges. Through continued efforts to educate our customers on their available options, we continue to receive opt-ins as expected. In total for 2010, the negative impact was in line with the $0.01 per share estimate previously provided.

The growth in other fee income reflected increased swap fee revenue from our commercial business and the 2nd successful harvesting this year at F.N.B. Capital Corporation, which on a combined basis added over $1 million to 4th quarter results.

For 2011, given our diverse fee income sources, we are targeting a run rate increase in non-interest income in the low to mid single digits. Our targeted increase includes full year projected Reg E impact but excludes potential Durbin Amendment-related reductions due to the uncertainty regarding this amendment and the fact that we are under the $10 billion asset threshold.

That being said, we do expect to see higher Wealth Management revenue, assuming continued market improvements combined with strategic initiatives in place for this line of business. We also expect higher insurance revenue due to planned revenue-generating initiatives and strong mortgage-related gains given the forecasted volume for 2011.

Turning to non-interest expense, the fourth quarter included a non-cash pension expense credit resulting from a plan amendment and $500,000 in CB&T-related merger costs. Effective December 31, 2010, we amended the retirement plan, freezing the accrual of future benefits. This strategic decision enables us to re-allocate resources to an enhanced 401(k) plan offered to employees. While reducing future retirement cost volatility, these actions also provide more flexibility to our employees consistent with industry trends.

For the full year 2011, through a continued focus on expense control and benefits from cost saving initiatives, we project an efficiency ratio excluding one-time merger costs, in the low 60% level. We expect the first quarter ratio to be closer to the mid-60% level as the beginning of the year involves resetting employee benefits, such as payroll taxes, and seasonally higher occupancy costs.

Switching over to credit quality, we are pleased with the fourth quarter delivering solid results for our Pennsylvania and Regency portfolios. As we look ahead to 2011, we expect levels of non-performing assets to continue to gradually decline, assuming continued improvement in the economy. We expect a meaningful reduction in provisioning in 2011 in the 20-25% range compared to full year 2010, given the actions taken in the Florida portfolio in 2010. We also expect a meaningful reduction in net charge-offs, driven by a 40% to 50% improvement in Florida-related charge-offs with stability in the Pennsylvania and Regency portfolios. Lastly, as you would expect, the allowance to loans ratio is projected to be down slightly from year-end 2010 levels as we utilize Florida reserves as we continue to wind down the Florida portfolio.

Regarding our capital position, capital ratios are expected to continue to exceed “well capitalized” thresholds.

Our effective tax rate for the fourth quarter is slightly elevated due to the higher level of pre-tax income given the pension credit. As we look ahead into 2011, we expect a 28% effective tax rate on a GAAP basis.

Now to update you on the CB&T acquisition completed January 1. Let me first say that we are on track to achieve the planned accretion levels in 2011. Total assets of $620 million were added to the balance sheet, with approximately $445 million of loans and $560 million of deposits. These are prior to purchase accounting marks, which will be finalized during the current quarter.

Looking to 2011 impacts, it is important to keep in mind the relative size of the acquisition. As a result, it will not have a material impact on key performance drivers. For example, it will only affect our net interest margin by about 1 basis point. Regarding one-time merger related costs, we expect approximately $5.0 million during the first quarter of 2011. As disclosed when the deal was announced, capital ratios will be slightly lower as a result of the acquisition, with an expected return to current capital levels achieved over the next 12 to 18 months. With the 5.9 million shares issued in conjunction with the acquisition, we expect average diluted shares of approximately 121.5 million for the full year of 2011.

Steve that completes my remarks.

Stephen Gurgovits, Chief Executive Officer, Pre Q&A

Thank you, Vince. While there will be continued regulatory challenges facing the banking industry in 2011, none is currently greater than the Durbin Amendment. It is our view that the proposed regulatory changes will not benefit the consumer in any way but rather potentially harm them through banks' diminished ability to provide low-cost banking services. While the Fed's current proposal would certainly have negative effects on revenue for the banking industry, FNB currently remains under the $10 billion asset-level exemption, which Visa recently announced that they will implement a two-tiered pricing system to accommodate. With the proposal comment

period ending February 22, the divided congress and the significant controversy surrounding these regulations we will of course be closely monitoring the developments.

In 2010 we were successful in gaining market share, leading to solid loan and deposit growth. We expanded the net interest margin, continued to focus on generating fee revenue while maintaining expense control and improved asset quality results. We are pleased to deliver these results for our shareholders. These efforts along with a dividend of 48 cents, delivered total shareholder return for 2010 of 53%.

Looking ahead to 2011, we believe that FNB is positioned to improve upon solid 2010 results. We intend to build on the successes of the past year and continue to gain market share through our focused calling efforts. We have an experienced team of talented bankers who have generated substantial momentum that will benefit us in our existing and recently expanded footprint. Additionally, we expect to continue to pursue opportunities related to the Marcellus Shale and our expanded footprint will further enhance our exposure here.

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

Steve Gurgovits, Chief Executive Officer – After Q&A:

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