FNB Corporation of Pennsylvania

Today's growth at yesterday's valuation; Initiate Buy

Initiating Coverage: BUY | PO: 15.00 USD | Price: 13.64 USD

11 January 2024

Equity

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Initiate FNB at Buy: Transformation still discounted

We are initiating coverage of FNB Corp/PA (FNB) with a Buy rating and a $15 price objective (+13.5% total potential return). FNB offers investors exposure to a high-growth, geographically diverse mid-cap bank, at a discount. Shares of FNB are trading at 9.5x 2024e EPS. This represents an 16% discount to the KRX (vs. -34% historically). That said, we believe the transformation in the franchise (following the integration of Yadkin Bank), including higher capital levels and tech investments, should result in further multiple expansion. Finally, we believe management has proven themselves credible via their successful execution against financial targets (we estimate ~80% of outlook achieved since 2017.

Top beneficiary (in coverage) from 100bp rate cut

Investors are entering 2024 primarily focused on interest rate risk. According to banks' interest rate sensitivity disclosures, FNB screens as best to benefit from a 100bp rate cut. Moreover, FNB has grown loans and deposits at an 8%/10% CAGR (ex. acquisitions) since 2014, outpacing broader industry growth of 5%/6%. For FY2024, we forecast 6% loan growth, twice that of mid-cap banks under coverage. Coupled with its high-quality deposit base, we believe FNB's balance sheet is well positioned to mitigate rate headwinds in 2024 and provide more support for net interest income vs. peers.

Above-average credit leverage opportunity

We believe consensus' 2024 credit forecasts for FNB appear low, and thus could pose downside risk to EPS estimates. In contrast to forecasts for most mid-cap banks, consensus NCO estimates fall short of FNB management's previously disclosed through-the-cycle range. That said, we expect FNB's credit quality to continue to outperform that of the industry, driven by proactive action to remove risk from the b/s and conservative underwriting. Should the US economy avoid a recession, as BofA economists expect, FNB's peer-leading reserve ratio provides the bank with above-average credit leverage.

Not yet rewarded for improved capital position

FNB has delivered strong profitability over the past decade, despite building capital. This is evident in its above-average return on tangible common equity (ROTCE) that has re-set higher (2025e vs. 2015) despite significantly higher capital levels. Since 2017, FNB's CET1 ratio has improved by ~130bp and its TCE ratio has increased 80bp. However, the market has not rewarded FNB for this improved capital position. We est. shares of FNB are trading at 5.8x capital-adjusted EPS, in line with pandemic-era lows. Higher capital levels provide FNB increased flexibility to pursue future acquisitions.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	1.23	1.23	1.47	1.34	1.44
EPS Change (YoY)	48.2%	0%	19.5%	-8.8%	7.5%
Consensus EPS (Bloomberg)			1.54	1.45	1.56
DPS	0.48	0.48	0.48	0.48	0.48
Valuation (Dec)					
P/E	11.1x	11.1x	9.3x	10.2x	9.5x
Dividend Yield	3.5%	3.5%	3.5%	3.5%	3.5%

Stock Data

Price	13.64 USD
Price Objective	15.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-7
52-Week Range	10.09 USD -14.68 USD
Mrkt Val / Shares Out (mn)	4,894 USD / 358.8
Free Float	98.6%
Average Daily Value	25.50 USD
BofA Ticker / Exchange	FNB / NYS
Bloomberg / Reuters	FNB US / FNB.N
ROE (2023E)	0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Acronyms:

CAGR: compounded annual growth rate

CET1: common equity tier 1

KRX: KBW Regional Banking Index

NCO: net charge-off

TCE: tangible common equity

Refer to important disclosures on page 16 to 18. Analyst Certification on page 14. Price Objective Basis/Risk on page 14. 12644634

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Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	917	1,131	1,325	1,302	1,374
% change	-1.8%	23.3%	17.1%	-1.7%	5.5%
Net Fee Income	329	321	321	330	333
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	1,247	1,452	1,646	1,632	1,707
Operating Expenses	(729)	(774)	(867)	(900)	(940)
% change	1.7%	6.2%	11.9%	3.9%	4.4%
Provisions Expense	(1)	(64)	(80)	(115)	(108)
% change	-99.5%	10,107.6%	23.9%	44.8%	-6.2%
Operating Pre-Tax Income	518	616	700	617	659
Operating Net Income to Comm S/Hold.	398	435	534	485	520
GAAP Net Income	398	435	533	485	521

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	37,251	41,248	43,159	44,388	45,979
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	10,085	11,638	10,960	10,805	11,199
% change	26.1%	15.4%	-5.8%	-1.4%	3.7%
Total Customer Deposits	63,452	69,540	69,228	71,305	74,136
% change	8.9%	9.6%	-0.4%	3.0%	4.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	(31,458)	(34,052)	(32,153)	(33,399)	(35,071)

Key Metrics (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	20.9%	17.5%	18.8%	19.6%	19.5%
Loan / Deposit Ratio	15.9%	16.7%	15.8%	15.2%	15.1%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	39.0%	39.0%	32.6%	35.8%	33.4%
Efficiency Ratio (Cost / Income Ratio)	58.5%	53.3%	52.6%	55.1%	55.1%

Quality of Earnings (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	26.4%	22.1%	19.5%	20.2%	19.5%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	3.41%	3.45%	3.70%	3.87%	3.82%

Company Sector

Banks-US Regionals

Company Description

F.N.B. Corporation of Pennsylvania has total assets of about $46bn. The bank has nearly 350 banking offices throughout PA, OH, MD, WV, NC, SC, Washington, DC, and VA. FNB also has segments devoted to insurance and wealth management.

Investment Rationale

FNB offers investors exposure to a high-growth, geographic diverse mid-cap bank, at a discount. The transformation in the franchise (following the integration of Yadkin Bank), including higher capital levels and tech investments, should result in further multiple expansion.

Stock Data

Average Daily Volume	1,869,783

Quarterly Earnings Estimates

	2022	2023
Q1	0.15A	0.40A
Q2	0.30A	0.39A
Q3	0.38A	0.40A
Q4	0.39A	0.29E

Initiate at Buy, PO implies ~14% returns

We are initiating coverage of FNB Corp/PA (FNB) with a Buy rating and a $15 price objective (+13.5% total potential return).

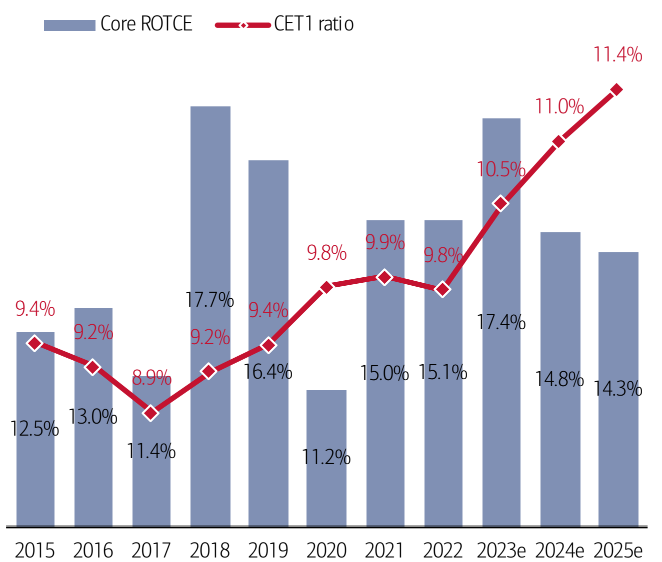
FNB offers investors exposure to a high-growth, geographically diverse mid-cap bank, at a discount. Shares of FNB are trading at 9.5x 2024e EPS. This represents a 16% discount to the KRX (vs. -34% historically). That said, we believe the transformation in the franchise (following the integration of Yadkin Bank), including higher capital levels and tech investments, should result in further multiple expansion. Finally, we believe management has proven themselves credible via their successful execution against financial targets (we estimate ~80% of outlook achieved since 2017).

Investors are likely entering 2024 focused on interest rate and credit risks. According to banks' interest rate sensitivity disclosures, FNB screens as best to benefit from a 100bp rate cut. Meanwhile, the FNB's stable deposit base and better-than-peer ability to gather deposits should also provide defensibility to net interest margin (NIM) headwinds.

Although, consensus' 2024 credit forecasts for FNB appear low, in our view, and thus could pose downside risk to EPS estimates, we expect FNB's credit quality to continue to outperform that of the industry. That said, its peer-leading allowance could likely provide FNB above-average credit leverage, barring a recession.

FNB has delivered strong profitability over the past decade, despite building capital. This is evident in its above-average return on tangible common equity (ROTCE) that has re-set higher (2025e vs. 2015) despite significantly higher capital levels. However, the market has not rewarded FNB for this improved capital position. We est. shares of FNB are trading at 5.8x capital-adjusted EPS, in line with pandemic-era lows.

Exhibit 1: ROTCE resilient despite building capital
Common equity tier 1 (CTE1) ratio vs. ROTCE



Source: BofA Global Research Estimates, company filings, Visible Alpha

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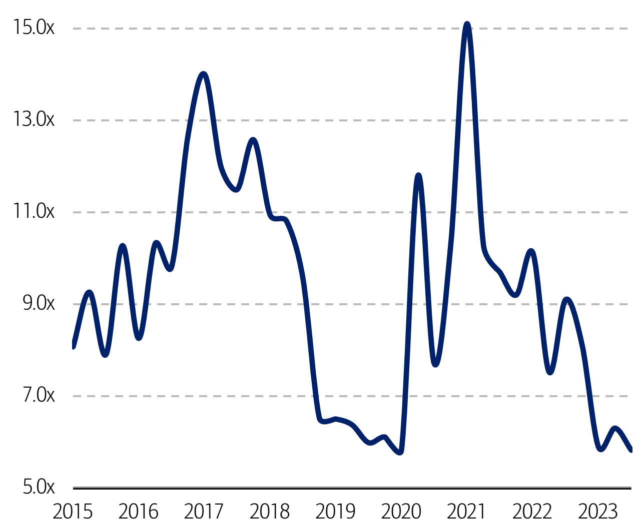
Exhibit 2: Capital adj. P/E at pandemic-era lows
Price to capital adjusted 1-year fwd. EPS



Source: BofA Global Research, company filings, S&P Capital IQ
Note: Capital-adjusted EPS adds excess capital (as defined by TCE ratio) to forward estimates

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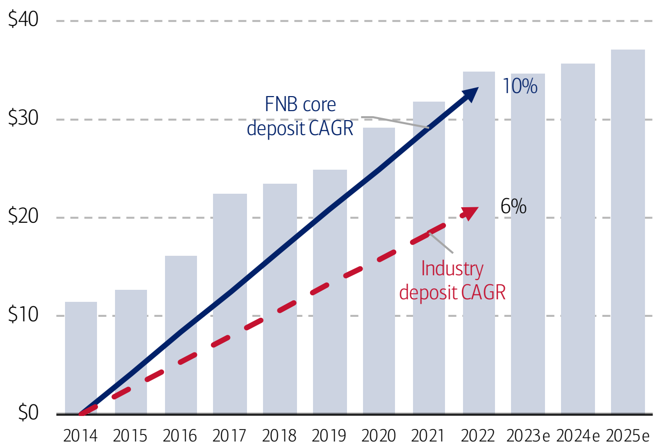
Diverse avenues to generate balance sheet growth

FNB has grown loans and deposits at an 8%/10% CAGR (ex. acquisitions) since 2014, outpacing broader industry growth of 5%/6%. We attribute this outperformance to FNB's diverse avenues for growth, including its expansive geographic footprint and digital programs (e.g., eStore, Physicians First, etc.). More recently, FNB has been able to take share amid retrenchment by peers needing to build capital ahead of regulatory changes (i.e., AOCI inclusion). We forecast 6% loan growth for FNB in 2024, nearly twice that of mid-cap banks under coverage. We believe this loan growth should help to minimize rate headwinds in 2024 and provide some support for net interest income vs. peers.

Exhibit 3: FNB deposit growth has outpaced the industry by 4ppt
Deposit growth; core excludes mergers ($ in billions)



Source: company filings, S&P Capital IQ, FDIC
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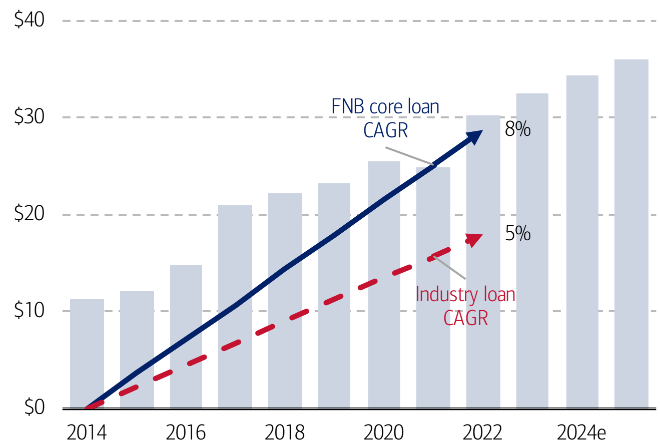
Exhibit 4: Loan growth outpaced the industry by 3ppt
Loan growth; core excludes mergers ($ in billions)



Source: company filings, S&P Capital IQ, FDIC
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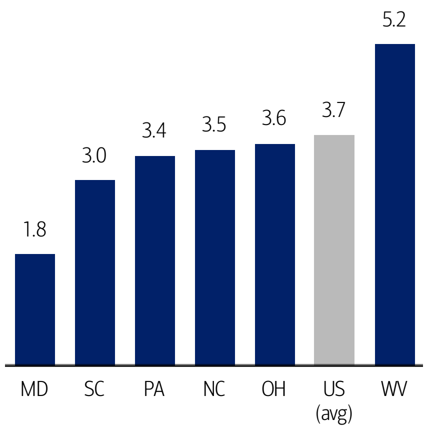
Geographic expansion/diversity helps navigate headwinds

Following several bank acquisitions, FNB operates in eight markets (including DC), nearly twice that of the average mid-cap bank (five markets). Expansion across the Mid-Atlantic and Carolinas has offered FNB access to ~8mn new households in high growth MSAs, including Charlotte, DC, Baltimore, and Charleston. Meanwhile, demographics within FNB's expansion markets, such as unemployment rate, loan growth, and projected household income growth, exhibit favorable trends vs. those of national average.

Exhibit 5: Unemployment rate lower in most of FNB's markets vs. national avg

Unemployment rate by state (%)



Source: Bloomberg

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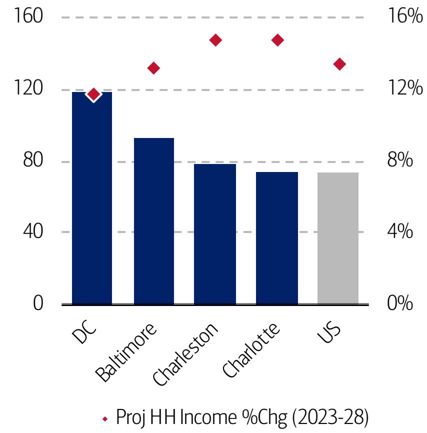
Exhibit 6: Median household income in FNB's footprint to outpace broader US

Median household income ($ in thousands)



Source: S&P Capital IQ

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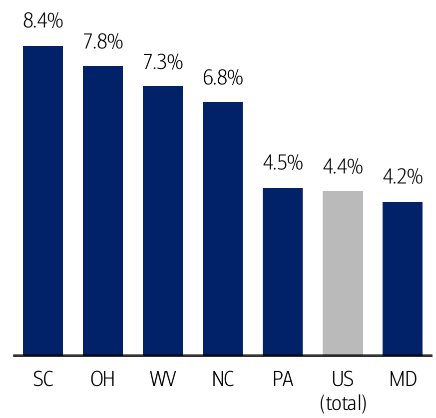
Exhibit 7: Loan growth in FNB's footprint has outpaced that of US last 5 years

Loan growth (5Y CAGR)



Source: FDIC

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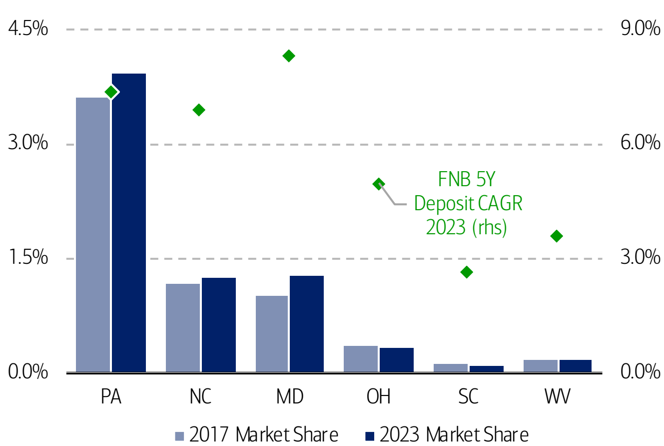
Although FNB is seeing growth across its entire footprint, the Carolinas (20-25% of footprint) have generated 40%+ net loan growth. Most of the growth in consumer portfolio driven by Physicians First program (within the Carolinas). We continue to view this as a growth avenue.

Deposit growth over the last six years buoyed by new markets

FNB has increased its deposit market share in its top 3 markets by 30bp to 2.5% since 2017, driven by 52% deposit growth over this time (market has grown deposits by 37%). In NC, expansion market via acquisition of Yadkin Financial, FNB has observed 2nd fastest deposit growth for an out-of-state bank.

Exhibit 8: FNB generating most deposit growth in top 3 markets

FNB deposit growth by state



Source: S&P Capital IQ

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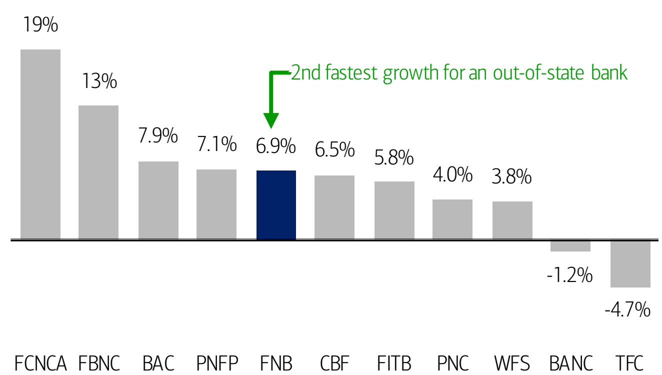
Exhibit 9: FNB seen 2nd fastest growth in NC for an out-of-state bank

North Carolina 5Y deposit CAGR



Source: S&P Capital IQ

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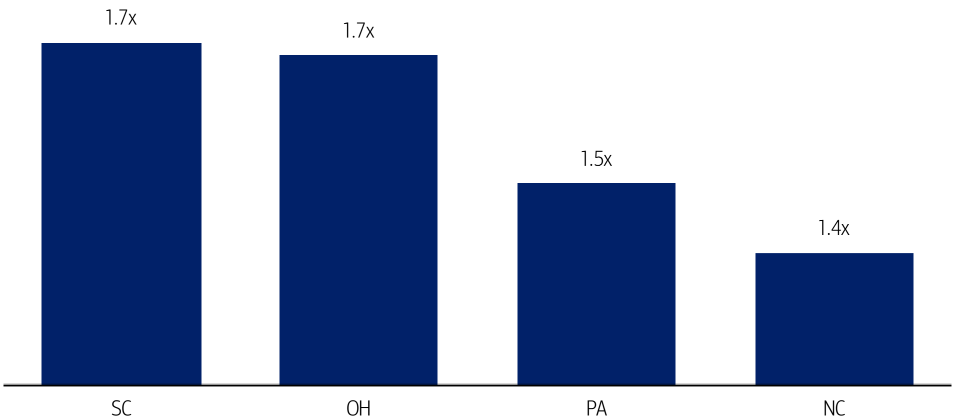
Digital offerings

- Physicians First product offers a suite of digital solutions to help address the financial needs of the medical community. According to BLS, the health care and social assistance sector is projected to not only grow most rapidly of any sector, but it is also projected to create about 45% of all the projected job gains from 2022 to 2032.

Exhibit 10: Pace of jobs in healthcare industry expected to outpace avg. job growth in FNB's footprint
Growth in health services vs. total job growth by state



Source: BLS

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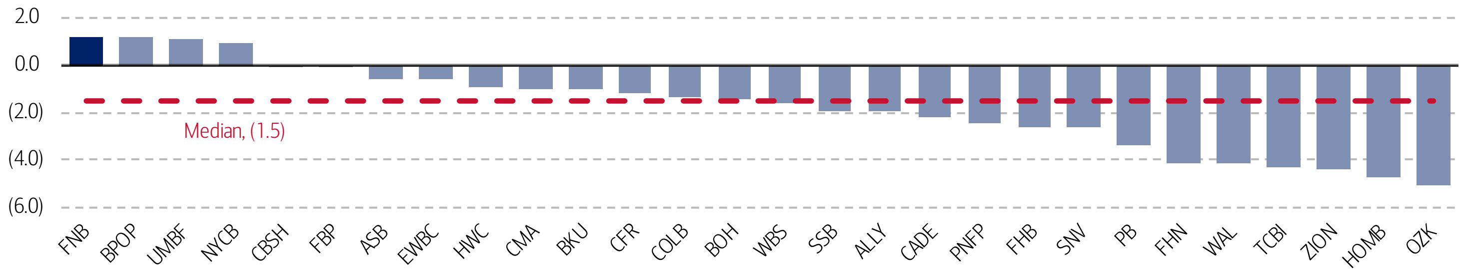
- FNB's eStore allows customers to shop for and buy multiple financial products and services simultaneously. (Customers can access an eStore anywhere – via the company's website, mobile app, or in a branch). The product offers a more efficient (can reduce by 23% the amount of time spent on a consumer loan application) and secure application process.

High quality deposits lead to liability-sensitive profile

We forecast FY2024 NII declines 2% YoY vs. -1% mid-cap coverage, driven by a continued increase in funding costs – albeit slowing – despite faster loan growth. Note, our forecasts assume rates remain higher for longer (i.e., no change to Fed funds rate). During our research, we found the bank's disclosure to be contradictory: rate sensitivity disclosure implies they benefit the most in a 100bp rate cut scenario but its 1Y gap ratio ranks above average. We concluded FNB's deposit franchise is of high quality, providing the bank with increased flexibility to manage funding costs.

Following the latest FOMC meeting, Fed funds futures are pricing in 130bp worth of rate cuts in 2024 (implies a terminal rate of 4.1%). According to companies' sensitivity disclosure, FNB would see the largest NII benefit from a rate cut among mid-cap bank peers. A gradual/parallel 100bp rate cut would increase FNB's NII by 1.2% over NTM. This compares to an average 1.5% reduction in NII among mid-cap bank peers. Management attributes the positive change in NII in this down rate scenario (vs. -2% disclosed at 4Q19) to 1) the higher starting point for deposit rates, 2) mix shift into higher beta deposit products, and 3) the increased level of shorter-term borrowings.

Exhibit 11: FNB expected to see the greatest benefit from 100bp rate cut
Interest rate sensitivity disclosure



Source: company filings, S&P Capital IQ

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However, given the inconsistency of the underlying assumptions embedded in these disclosures, any comparison is somewhat unreliable, in our view. Instead, we compared how mid-cap banks' balance sheet's were positioned to navigate Fed rate cuts. Based on our analysis, it appears FNB is well balanced between NII/NIM headwinds and tailwinds. (Note: management has positioned the bank's balance sheet to be relatively neutral over medium-term).

Defensibility heatmap:

- FNB ranks above average on (i.e., reduces NIM volatility): cash levels; loan growth; short-term debt

- FNB ranks below average on: securities cash flows; loan/deposit ratio

    - Securities portfolio produces ~$850mn in annual cash flows (3% of earning assets). Management is maintaining the portfolio's convexity and duration characteristics; reinvestment spreads are +350bp.

    - Management is comfortable funding loan growth with excess liquidity; however, with a 93% loan/deposit ratio (vs. 70% industry avg.) could receive negative. However, this limits the opportunity to let deposits attrite and reduce funding costs.

Exhibit 12: FNB's balance sheet construction suggests minimal NIM volatility in a down rate environment
Net interest margin decomposition heatmap

(as % of avg. earning assets)	ASB	BOH	BPOP	CBSH	CFR	CMA	EWBC	FBP	FHB	FHN	FNB	NYCB	PB	SNV	TCBI	WAL	WBS	ZION
Cash $	2%	2%	9%	6%	16%	9%	7%	5%	4%	4%	3%	6%	1%	1%	14%	5%	3%	4%
Annual securities $ cash flows	5%	3%	6%	8%	2%	2%	2%	4%	3%	1%	2%		6%	2%	1%	3%	2%	4%
Duration (years)	6.1	3.9	2.2	3.9	5.7	5.6	5.1	3.6	5.5	5.3	4.4	7.1	4.5	5.4	4.4	5.5	4.5	3.5
Yield on securities (3Q23)	3.03%	2.46%	2.33%	2.33%	3.24%	2.10%	3.11%	1.59%	2.14%	3.01%	2.61%	4.30%	2.05%	2.29%	2.33%	4.91%	3.39%	2.73%
Fixed rate $ loans	39%	38%	26%	23%	17%	33%	17%	42%	35%	27%	31%	37%	25%	29%	4%	33%	30%	15%
Consensus loan growth forecast	3%	3%	7%	4%	2%	2%	5%	6%	3%	2%	5%	2%	2%	2%	9%	6%	4%	1%
Loan beta (CTD)	60%	22%	19%	46%	57%	59%	56%	26%	37%	52%	44%	46%	25%	48%	68%	55%	53%	40%
Loan/deposit ratio	94%	67%	54%	68%	45%	80%	92%	73%	67%	92%	93%	102%	78%	87%	86%	91%	83%	75%
Noninterest bearing deposits $	17%	25%	22%	25%	32%	37%	25%	28%	36%	23%	27%	23%	29%	23%	32%	28%	17%	33%
Brokered $ CDs + index-linked deposits	9%	10%	1%	4%	0%	6%	3%	2%	11%	5%	2%	8%	0%	11%	5%	10%	12%	10%
CD $ maturity schedule	1%	3%	4%	1%	1%	0%	0%	5%	6%	0%	2%	16%		3%	4%	13%	6%	0%
Short term $ borrowings	8%	1%	0%	9%	0%	6%	7%	0%	2%	3%	5%	0%	12%	0%	5%	12%	3%	5%
Long term debt to mature in 2024	0%	0%	0%	0%	0%	1%	0%	0%	0%	2%	0%	1%	0%	5%	0%	1%	0%	0%

Source: BofA Global Research, company filings, Visible Alpha

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Quality of deposit base allows FNB to navigate rate cycles

We believe FNB's deposit base provides them with more flexibility to offset more rate cuts than presumed. Cycle-to-date, FNB has seen a deposit beta of 42%, lower than the peer average (48%). This would suggest FNB has slightly less opportunity, relative to peers, to offset lower rates by reducing deposit costs. That said, FNB's deposit base appears more stable, driven by: 1) diversified funding channels; 2) modest reduction in NIB deposits over LTM; and 3) 85%+ of total deposits and customer repo agreements are transaction-based. This is reflected in FNB's ability to lower deposit costs more than peers (as exhibited by its higher deposit beta during the 2019 rate cutting cycle).

In order to stack rank each bank's deposit portfolio, we looked at five (5) characteristics: available deposit market share (lower = better); deposit costs and betas (lower = better); retail as % of total (higher = better); and % of insured deposits (higher = better). Based on the aggregate ranking, we found FNB has the 5th highest quality deposit franchise among mid-cap banks

Exhibit 13: FNB has a "top-5" quality deposit franchise
Deposit quality heatmap

Deposit Quality Heatmap

	Available Share	Deposit Cost	CTD Beta	%Retail	%Insured	Combined Rank
BPOP	5%	1.85%	33%	40%	87%	3
FBP	5%	1.31%	21%	32%	52%	2
PB	43%	1.12%	19%	53%	61%	9
CFR	42%	1.36%	26%	0%	49%	8
EWBC	30%	2.45%	45%	61%	54%	20
TCBI	42%	2.64%	47%	8%	60%	16
FHB	3%	1.41%	26%	45%	49%	6
FHN	42%	2.46%	46%	43%	61%	17
BOH	3%	1.41%	26%	48%	49%	12
WAL	24%	2.33%	43%	46%	81%	11
WBS	34%	1.97%	37%	39%	63%	8
SNV	40%	2.33%	43%	37%	55%	15
NYCB	32%	2.33%	39%	0%	57%	11
ASB	45%	2.41%	46%	57%	79%	18
CBSH	56%	1.22%	23%	49%	59%	14
FNB	39%	1.63%	29%	40%	78%	5
SBCF	42%	1.81%	34%	43%	66%	13
SSB	38%	1.45%	27%	30%	66%	4
BKU	38%	2.76%	50%	40%	54%	20

Source: BofA Global Research, company filings, S&P Capital IQ
Note: Available share = 1- top 5 market share holders in respective state

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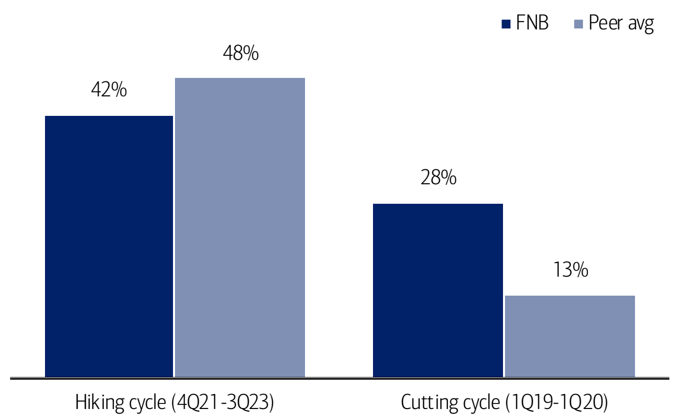
Exhibit 14: FNB saw above avg. deposit beta in last rate cutting cycle
Deposit betas during different cycles



Source: company filings, S&P Capital IQ

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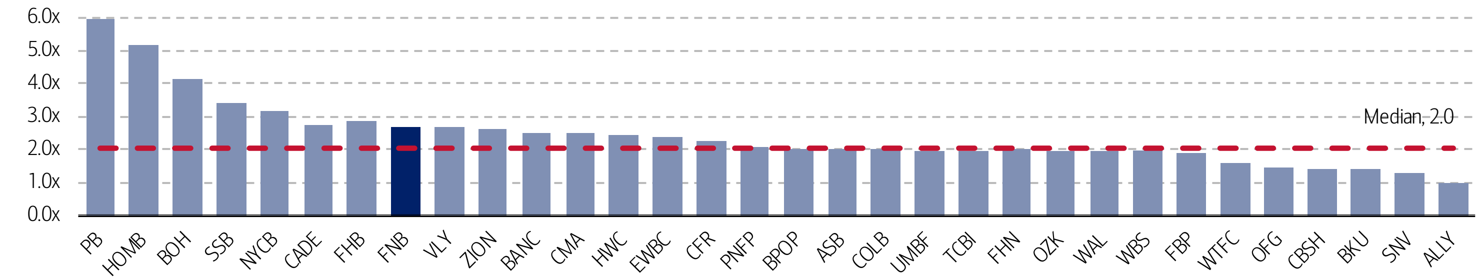
Credit estimates at risk if economy falters

We believe consensus' 2024 credit forecasts for FNB may be too low and thus could pose downside risk to EPS estimates. That said, we expect FNB's credit quality to continue to outperform that of the industry. As of 3Q23, FNB reported an allowance of 1.25% of loans or 2.7x consensus' 2024/25 NCO estimates (~46bp). Both ratios compare favorably to mid-cap bank peers (1.2%/2.0x, respectively). Barring a recession, the allowance would likely provide FNB above-average credit leverage. However, consensus loss estimates fall short of the low-end of FNB management's previously disclosed TTC NCO range of 25-50bp. In contrast, 2024 NCOs forecasts for most mid-cap banks are within the banks' respective TTC range.

Exhibit 15: FNB sufficiently reserved relative to loan loss expectations, increasing the bank's credit leverage

Allowance vs. consensus 2024/25 NCOs



Source: company filings, S&P Capital IQ

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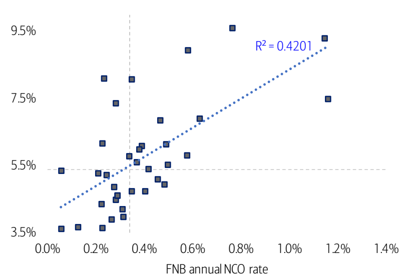
We forecast 2024 NCOs of 30bp. This assumes a 75%/25% weighted average of Moody's unemployment forecast within its base case and stagflation scenarios, resulting in a 140bp YoY increase to 5.2% by 4Q24. Assuming a stable reserve ratio (1.24%), this implies a FY2024 provision expense of $127mn or a 4% impact to consensus 2024 EPS est., all else equal.

Exhibit 16: We est. higher provisions from an increase in the unemployment would reduce FNB 2024 EPS by 4%, all else equal

Credit sensitivity analysis



	Moody's unemployment est.			NCO forecast (%)	
	Base	Stag	Wtd avg		
	75%	25%	-	Cons	BofA
4Q23	3.80%	3.80%	3.80%	0.17	0.21
1Q24	3.90%	5.40%	4.28%	0.19	0.27
2Q24	3.90%	6.50%	4.55%	0.22	0.29
3Q24	4.00%	7.70%	4.93%	0.24	0.32
4Q24	4.00%	8.80%	5.20%	0.25	0.34
FY24	NCO rate (%)			0.22	0.30
	NCOs ($mn)			$78	$102

EPS impact of higher provisions assuming stable ALLL ratio		
ALLL % of loans (3Q23)		1.24%
Reserves (3Q23)	$	401
BofA '24e NCOs		102
Cons '24e loans		34,254
Implied '24 provisions	$	127
Cons '24e provisions		101
EPS impact		-4%

Source: BofA Global Research, company filings, S&P Capital IQ, Bloomberg, Visible Alpha, Moody's

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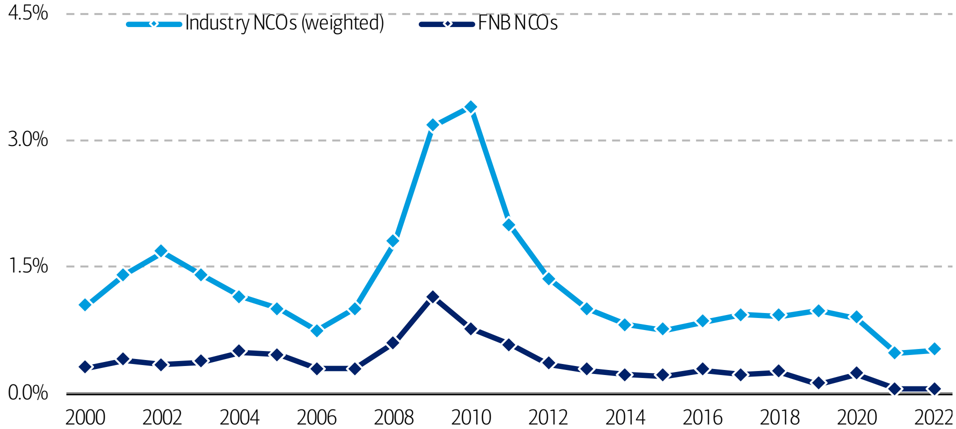
FNB's credit quality has typically outperformed industry

FNB has typically experienced lower loan losses vs. the industry. Since 1990, FNB reported average annual NCOs of 36bp (ex. recessions) vs. a composition-like weighted industry average of ~130bp. We attribute lower loan losses to 1) management action to proactively remove risk from the balance sheet and 2) conservative underwriting. Consumer loans have historically been the primary driver of loan losses; however, to minimize losses within this asset class, management has sold Regency (its consumer finance subsidiary), curtailed rate-sensitive portfolios, and reduced tail risk of auto portfolio.

Exhibit 17: FNB loan losses have outperformed by ~90bp
NCO ratio



Source: company filings, S&P Capital IQ, FDIC

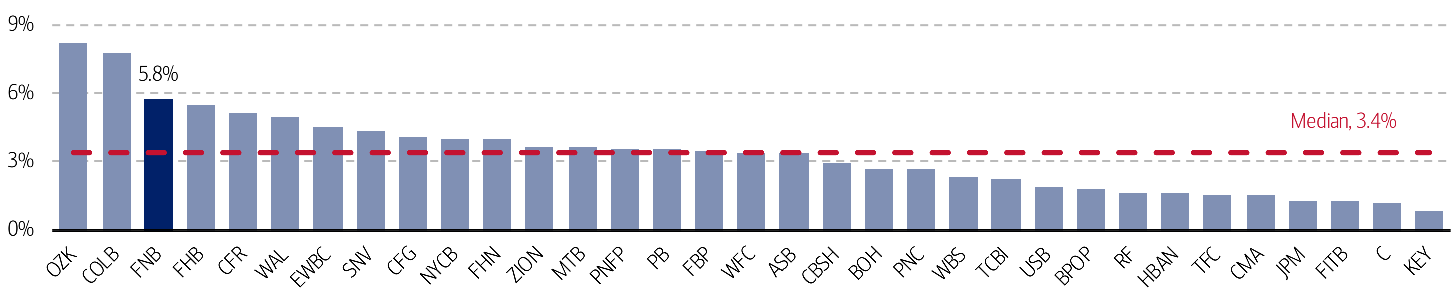
BofA GLOBAL RESEARCH

Similar to that of peers, FNB's credit migrations are beginning to increase. Criticized loans have increased 14% since 4Q21; however, at a slower pace than that of peers (+21%). That said, criticized loans represent 36% of tier 1 capital (peer avg. 20%). Management attributes the higher level of criticized loans to a relatively more conservative (i.e., aggressive) gradation process. More importantly, these loans have not necessarily translated into losses.

Office-CRE exposure could weigh on shares

Overall CRE portfolio (36% of loans), including multifamily (1.5%), is smaller than the average bank (42%/5%, respectively). Meanwhile, in 1Q23 FNB performed an in-depth review of CRE loans maturing in 2023/24. Although CRE loans classified as special mention have increased $29mn YTD to $565mn, representing 90bp of TCE, the review did not result in any risk rating changes. That said, FNB's above-average exposure to office-CRE could indiscriminately weigh on shares in 2024. Office loans comprise 6% of loans as of 3Q23, nearly double that of the average bank under coverage. Majority of which are less than $5mn. There could be some reprieve with 18% of the portfolio expected to mature in 2024.

Exhibit 18: FNB has above-average office-CRE exposure
Office-CRE loans as % of total



Source: BofA Global Research, company filings

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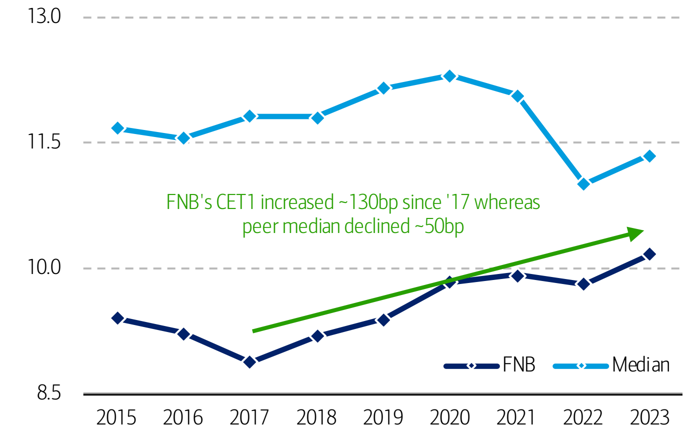
Capital improved but still below peers'

Following structural changes made to its balance sheet, FNB has seen its gap to peers on CET1 narrow since 2017. (Recall FNB's acquisition of Yadkin, closed Mar. 2017, reduced its TBV/share by 8.5%). Over this time, FNB's CET1 ratio has improved by ~130bp and its TCE ratio has increased 80bp. Peers on the other hand, have seen their capital ratios contract (-50bp/-210bp, respectively). Recent TCE growth outperformance has been aided by limited AOCI impairment. Although, FNB's CET1 ratio is above management's internal target (10.2% vs. ~10%), it remains below the peer median (11.3%). This likely will limit the amount of capital management returns to shareholders relative to peers in the near term. That said, these higher capital levels (+70bp vs. historical average) provides FNB increased flexibility to pursue future acquisitions.

Exhibit 19: FNB has narrowed its capital gap to peers since '17
CET1 ratio



Source: company filings, S&P Capital IQ

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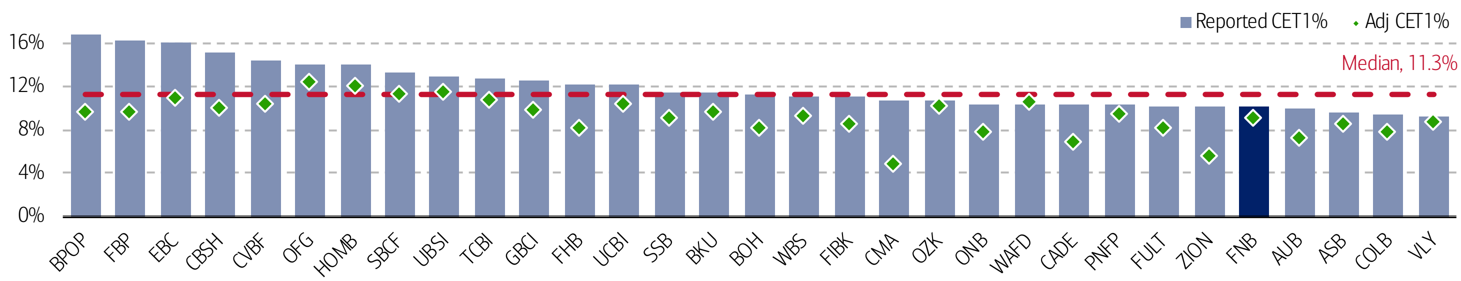
Exhibit 20: FNB AOCI adj. CET1 ratio closer to that of peers
Reported and adjusted CET1 ratios (as of 3Q23)



Source: company filings, S&P Capital IQ

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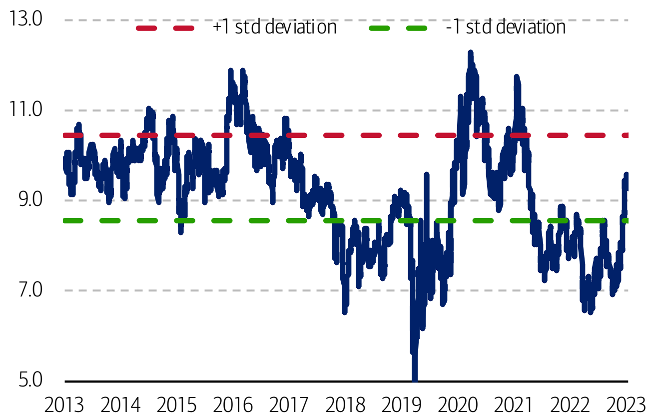
Valuation

Shares of FNB are trading at 9.5x 2024e EPS, in-line with its historical average. Meanwhile, the discount to the KRX has narrowed to -16% vs. -34% historically. While the discounted valuation likely reflects FNB's lower relative capital levels, we attribute the recent improvement to: 1) the successful integration of Yadkin acquisition (and subsequent increased FNB's scale and geographic diversity); 2) higher capital levels vs. history; and 3) higher/more resilient returns.

Exhibit 21: Shares trading in-line with historical average
1-year forward P/E multiple



Source: Bloomberg

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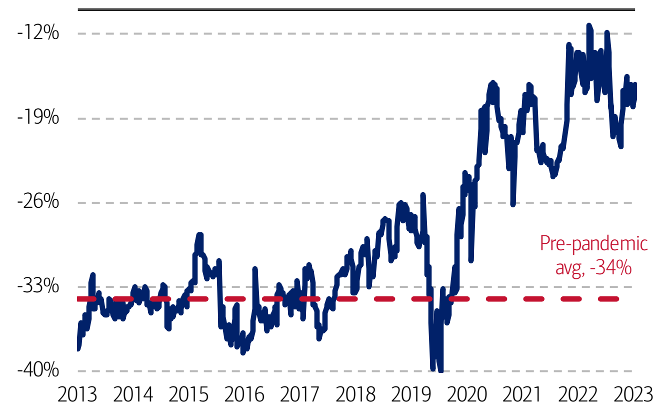
Exhibit 22: FNB has narrowed its valuation gap to peers
FNB vs. KRX 1-year forward P/E multiple



Source: Bloomberg

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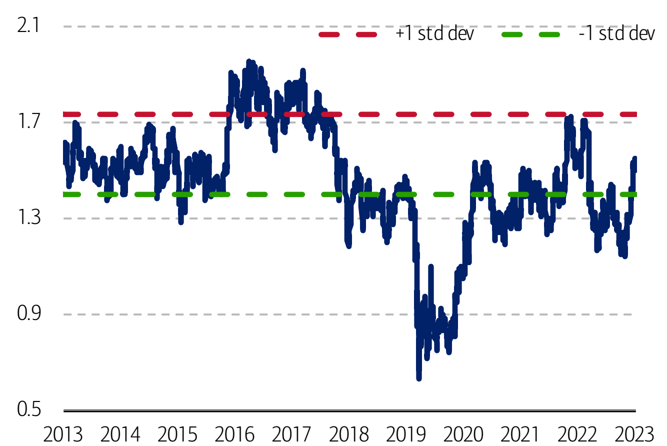
Exhibit 23: FNB trading in-line with pre-pandemic average
Price to tangible book value (x)



Source: Bloomberg

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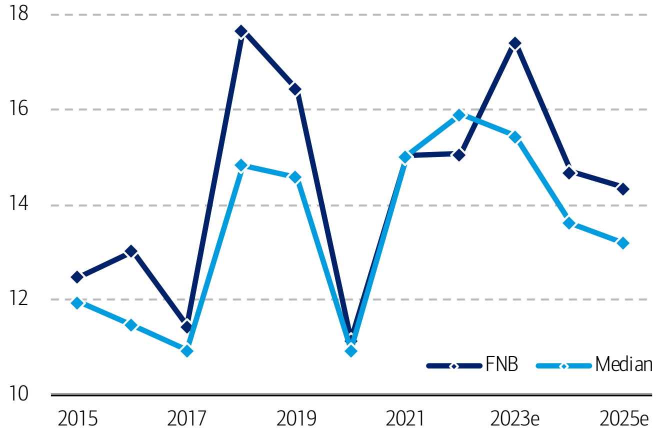
FNB is currently trading at 1.5x TBV, relatively in-line with its 5-year pre-pandemic average. After adjusting TBV for AOCI, we est. shares are trading at 1.4x TBV – at the low-end of its historical trading range (defined as +/-1 standard deviation). On an adjusted basis, FNB is trading in-line with mid-cap banks (consistent with history), this despite expectations for FNB to generate higher returns and TBV growth.

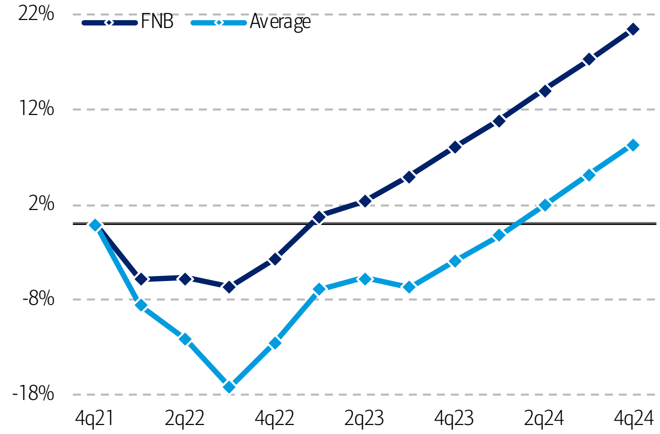
Exhibit 24: FNB expected to generate higher returns over next 2 years
ROTCE (%)



Source: company filings, Visible Alpha

BofA GLOBAL RESEARCH

Exhibit 25: Meanwhile, FNB's TBV/sh growth to outpace peers
TBV/share growth (index = 4Q21)



Source: company filings, Visible Alpha

BofA GLOBAL RESEARCH

Price objective

We value FNB's shares using a 50/50 blend of forward price-to-earnings (P/E) and price-to-tangible book value (P/TBV) multiples. We arrive at our $15 price objective based on the following:

Given expectations for FNB to generate 14% (as well as under stress), we ascribe a 10.5x multiple on our 2024e EPS. This implies a fair value of $14. The premium to its 5-year pre-pandemic history (9.5x) reflects improved capital levels, successful execution (including increased geographic diversity), and continued above-average balance sheet growth.

During times of uncertainty, principally driven by the trajectory of credit costs – and therefore earnings – investors will utilize a price-to-tangible book valuation (P/TBV) methodology. We ascribe a 1.6x P/TBV multiple based on our 2024e ROTCE. This implies a fair value of $17. The represents a discount to history (1.8x).

Upside risk: stronger than expected balance sheet growth; quicker return to profitability; and greater NIM expansion relative to peers. Downside risk: higher than expected expense growth; accelerated credit migration; and slower balance sheet growth.

Price objective basis & risk

FNB Corporation of Pennsylvania (FNB)

Our $15 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e tangible book value (TBV). We assigned 10.5x/1.6x multiples, respectively, improved capital levels and above-average ROTCE profile.

Upside risk: stronger than expected balance sheet growth, quicker return to profitability, and greater NIM expansion relative to peers. Downside risk: higher than expected expense growth, accelerated credit migration, and slower balance sheet growth.

Analyst Certification

I, Brandon Berman, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
UNDERPERFORM				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Disclosures

Important Disclosures

Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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