

FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September 30, 2013

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____
Commission File Number 001-11138
First Commonwealth Financial Corporation
(Exact name of registrant as specified in its charter)

Pennsylvania 25-1428528
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

601 Philadelphia Street, Indiana, PA 15701
(Address of principal executive offices) (Zip Code)
724-349-7220

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of November 7, 2013, was 95,250,215.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	September 30, 2013	December 31, 2012
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$88,179	\$98,724
Interest-bearing bank deposits	5,077	4,258
Securities available for sale, at fair value	1,291,063	1,171,303
Other investments	33,704	28,228
Loans:		
Portfolio loans	4,240,004	4,204,704
Allowance for credit losses	(54,957	) (67,187
Net loans	4,185,047	4,137,517
Premises and equipment, net	67,050	68,970
Other real estate owned	9,656	11,262
Goodwill	159,956	159,956
Amortizing intangibles, net	1,527	2,375
Bank owned life insurance	173,052	170,925
Other assets	136,651	141,872
Total assets	\$6,150,962	\$5,995,390
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$908,436	\$883,269
Interest-bearing	3,709,365	3,674,612
Total deposits	4,617,801	4,557,881
Short-term borrowings	551,628	356,227
Subordinated debentures	72,167	105,750
Other long-term debt	144,501	174,471
Total long-term debt	216,668	280,221
Other liabilities	53,509	55,054
Total liabilities	5,439,606	5,249,383
Shareholders' Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	—	—
Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued at September 30, 2013 and December 31, 2012, and 95,544,765 and 99,629,494 shares outstanding at September 30, 2013 and December 31, 2012, respectively	105,563	105,563
Additional paid-in capital	365,338	365,354
Retained earnings	331,203	315,608
Accumulated other comprehensive (loss) income, net	(19,469	) 1,259
Treasury stock (10,018,690 and 5,933,961 shares at September 30, 2013 and December 31, 2012, respectively)	(71,279	) (41,777
Total shareholders' equity	711,356	746,007
Total liabilities and shareholders' equity	\$6,150,962	\$5,995,390

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three-Months Ended September 30,		For the Nine-Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	\$43,935	\$46,339	\$132,178	\$140,787
Interest and dividends on investments:				
Taxable interest	8,280	7,520	22,708	24,348
Interest exempt from federal income taxes	1	1	3	11
Dividends	90	18	156	58
Interest on bank deposits	2	2	5	4
Total interest income	52,308	53,880	155,050	165,208
Interest Expense				
Interest on deposits	3,750	5,054	11,948	16,944
Interest on short-term borrowings	362	311	869	817
Interest on subordinated debentures	584	1,424	2,548	4,279
Interest on other long-term debt	383	441	1,340	1,430
Total interest on long-term debt	967	1,865	3,888	5,709
Total interest expense	5,079	7,230	16,705	23,470
Net Interest Income	47,229	46,650	138,345	141,738
Provision for credit losses	2,714	6,754	18,011	14,838
Net Interest Income after Provision for Credit Losses	44,515	39,896	120,334	126,900
Noninterest Income				
Changes in fair value on impaired securities	236	1,374	4,941	1,549
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(236)	(1,374)	(4,941)	(1,549)
Net impairment losses	—	—	—	—
Net securities gains	229	163	237	163
Trust income	1,406	1,631	4,677	4,780
Service charges on deposit accounts	4,227	3,736	11,443	10,975
Insurance and retail brokerage commissions	1,822	1,844	4,623	4,938
Income from bank owned life insurance	1,359	1,465	4,219	4,369
Gain on sale of assets	1,356	757	2,056	4,316
Card related interchange income	3,536	3,260	10,214	9,659
Joint venture termination fee	—	1,909	—	1,909
Other income	3,148	3,090	9,430	10,222
Total noninterest income	17,083	17,855	46,899	51,331
Noninterest Expense				
Salaries and employee benefits	20,998	21,280	64,288	65,401
Net occupancy expense	3,274	3,235	10,130	9,942
Furniture and equipment expense	3,294	3,118	9,863	9,326
Data processing expense	1,492	1,987	4,511	5,346
Pennsylvania shares tax expense	1,516	1,510	4,223	4,203
Intangible amortization	193	367	848	1,109
Collection and repossession expense	860	1,281	2,862	4,650

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Other professional fees and services	878	1,028	2,795	3,167
FDIC insurance	1,178	1,258	3,312	3,757
Loss on sale or write-down of assets	479	426	1,009	4,215
Loss on redemption of subordinated debt	—	—	1,629	—
Operational losses	238	3,657	790	4,033
Other operating expenses	5,645	5,618	17,237	18,216
Total noninterest expense	40,045	44,765	123,497	133,365
Income Before Income Taxes	21,553	12,986	43,736	44,866
Income tax provision	5,699	3,139	11,513	11,647
Net Income	\$15,854	\$9,847	\$32,223	\$33,219
Average Shares Outstanding	96,194,594	104,080,025	97,671,343	104,593,125
Average Shares Outstanding Assuming Dilution	96,208,545	104,098,383	97,675,352	104,595,396
Per Share Data:				
Basic Earnings per Share	\$0.16	\$0.09	\$0.33	\$0.32
Diluted Earnings per Share	\$0.16	\$0.09	\$0.33	\$0.32
Cash Dividends Declared per Common Share	\$0.06	\$0.05	\$0.17	\$0.13

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

	For the Three-Months Ended September 30, 2013		For the Nine-Months Ended September 30, 2013	
	2012		2012	
	(dollars in thousands)			
Net Income	\$15,854	\$9,847	\$32,223	\$33,219
Other comprehensive (loss) income, before tax benefit (expense):				
Unrealized holding (losses) gains on securities arising during the period	(4,239	) 2,068	(36,585	) 3,165
Non-credit related gains on securities not expected to be sold	236	1,374	4,941	1,549
Less: reclassification adjustment for gains on securities included in net income	(229	) (163	) (237	) (163
Total other comprehensive (loss) income, before tax benefit (expense)	(4,232	) 3,279	(31,881	) 4,551
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,485	(1,146	) 11,153	(1,585
Total other comprehensive (loss) income	(2,747	) 2,133	(20,728	) 2,966
Comprehensive Income	\$13,107	\$11,980	\$11,495	\$36,185

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
(dollars in thousands, except per share data)								
Balance at December 31, 2012	99,629,494	\$ 105,563	\$ 365,354	\$ 315,608	\$ 1,259	\$(41,777)	\$—	\$ 746,007
Net income				32,223				32,223
Other comprehensive loss					(20,728)			(20,728)
Cash dividends declared (\$0.17 per share)				(16,630)				(16,630)
Discount on dividend reinvestment plan purchases			(84)					(84)
Treasury stock acquired	(4,168,088)					(30,001)		(30,001)
Treasury stock reissued	25,359			—		176		176
Restricted stock	58,000	—	68	2		323		393
Balance at September 30, 2013	95,544,765	\$ 105,563	\$ 365,338	\$ 331,203	\$(19,469)	\$(71,279)	\$—	\$ 711,356
	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
(dollars in thousands, except per share data)								
Balance at December 31, 2011	104,916,994	\$ 105,563	\$ 365,868	\$ 294,056	\$ 2,001	\$(7,345)	\$(1,600)	\$ 758,543
Net income				33,219				33,219
Other comprehensive income					2,966			2,966
Cash dividends declared (\$0.13 per share)				(13,633)				(13,633)
Net decrease in unearned ESOP shares							1,500	1,500
			(445)					(445)

ESOP market value adjustment (\$685, net of \$240 tax benefit)									
Discount on dividend reinvestment plan purchases			(67)					(67)	
Tax benefit of stock options exercised			1					1	
Treasury stock acquired	(1,342,517)					(9,112)		(9,112)	
Treasury stock reissued	95,552		—	(329)		946		617	
Restricted stock	220,000	—	37	(1,264)		1,529		302	
Balance at September 30, 2012	103,890,029	\$ 105,563	\$ 365,394	\$ 312,049	\$ 4,967	\$(13,982)	\$(100)	\$ 773,891	

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
 ITEM 1. Financial Statements and Supplementary Data (Continued)
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine-Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Operating Activities		
Net income	\$32,223	\$33,219
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	18,011	14,838
Deferred tax expense	9,441	2,507
Depreciation and amortization	6,899	5,736
Net gains on securities and other assets	(892)	(1,392)
Net amortization of premiums and discounts on securities	278	1,075
Net amortization of premiums and discounts on long term debt	(88)	(84)
Income from increase in cash surrender value of bank owned life insurance	(4,219)	(4,369)
Decrease in interest receivable	1,807	1,426
Decrease in interest payable	(1,297)	(2,087)
(Decrease) increase in income taxes payable	(1,093)	6,294
Decrease in prepaid FDIC insurance	9,205	3,500
Other-net	(2,434)	(6,067)
Net cash provided by operating activities	67,841	54,596
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	671	—
Proceeds from maturities and redemptions	258,097	410,909
Purchases	(410,435)	(395,337)
Purchases of FHLB stock	(15,378)	—
Proceeds from the redemption of FHLB stock	9,902	7,317
Proceeds from bank owned life insurance	2,092	2,071
Proceeds from sale of loans	20,760	15,981
Proceeds from sales of other assets	10,880	15,301
Net increase in loans	(94,250)	(185,018)
Purchases of premises and equipment	(4,576)	(6,468)
Net cash used in investing activities	(222,237)	(135,244)
Financing Activities		
Net decrease in federal funds purchased	(23,000)	(54,800)
Net increase in other short-term borrowings	218,401	203,792
Net increase (decrease) in deposits	59,945	(10,206)
Repayments of other long-term debt	(29,883)	(25,358)
Repayments of subordinated debentures	(34,702)	—
Discount on dividend reinvestment plan purchases	(84)	(67)
Dividends paid	(16,630)	(13,633)
Proceeds from reissuance of treasury stock	176	617
Purchase of treasury stock	(29,553)	(9,112)
Stock option tax benefit	—	1
Net cash provided by financing activities	144,670	91,234

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Net (decrease) increase in cash and cash equivalents	(9,726) 10,586
Cash and cash equivalents at January 1	102,982	78,478
Cash and cash equivalents at September 30	\$93,256	\$89,064

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The accounting and reporting policies of First Commonwealth Financial Corporation and its subsidiaries ("First Commonwealth" or "Company") conform with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ from those estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of First Commonwealth's financial position, results of operations, cash flows and changes in shareholders' equity as of and for the periods presented.

The results of operations for the nine-months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full year of 2013. These interim financial statements should be read in conjunction with First Commonwealth's 2012 Annual Report on Form 10-K which is available on First Commonwealth's website at <http://www.fcbanking.com>.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing bank deposits. Generally, federal funds are sold for one-day periods.

Note 2 Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income ("OCI") in the Condensed Consolidated Statements of Comprehensive Income. Reclassification adjustments related to securities available for sale are included in the "Net securities gains" line in the Condensed Consolidated Statements of Income. The non-credit related gains on securities not expected to be sold are included in the "Noninterest Income" section of the Condensed Consolidated Statements of Income.

	For the Nine-Months Ended September 30					
	2013		2012			
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	\$ (36,585)	\$ 12,799	\$ (23,786)	\$ 3,165	\$ (1,100)	\$ 2,065
Non-credit related gains on securities not expected to be sold	4,941	(1,729)	3,212	1,549	(542)	1,007
Reclassification adjustment for gains on securities included in net income	(237)	83	(154)	(163)	57	(106)
Total unrealized (losses) gains on securities	(31,881)	11,153	(20,728)	4,551	(1,585)	2,966
Total other comprehensive (loss) income	\$ (31,881)	\$ 11,153	\$ (20,728)	\$ 4,551	\$ (1,585)	\$ 2,966

	For the Three-Months Ended September 30					
	2013		2012			
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	\$ (4,239)	\$ 1,487	\$ (2,752)	\$ 2,068		