

FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
May 08, 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 March 31, 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 May 6, 2013, was 97,898,950.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. Financial Statements and Supplementary Data

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	March 31, 2013	December 31, 2012
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$53,991	\$98,724
Interest-bearing bank deposits	1,780	4,258
Securities available for sale, at fair value	1,297,203	1,171,303
Other investments	28,357	28,228
Loans:		
Portfolio loans	4,218,810	4,204,704
Allowance for credit losses	(62,262	) (67,187
Net loans	4,156,548	4,137,517
Premises and equipment, net	69,009	68,970
Other real estate owned	10,933	11,262
Goodwill	159,956	159,956
Amortizing intangibles, net	2,017	2,375
Bank owned life insurance	172,175	170,925
Other assets	147,070	141,872
Total assets	\$6,099,039	\$5,995,390
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$883,307	\$883,269
Interest-bearing	3,828,271	3,674,612
Total deposits	4,711,578	4,557,881
Short-term borrowings	308,100	356,227
Subordinated debentures	105,750	105,750
Other long-term debt	174,318	174,471
Total long-term debt	280,068	280,221
Other liabilities	51,565	55,054
Total liabilities	5,351,311	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 March 31, 2013 and December 31, 2012 and 99,298,120 and 99,629,494 shares outstanding at March 31, 2013 and December 31, 2012, respectively	105,563	105,563
Additional paid-in capital	365,354	365,354
Retained earnings	321,185	315,608
Accumulated other comprehensive (loss) income, net	(312	) 1,259
Treasury stock (6,265,335 and 5,933,961 shares at March 31, 2013 and December 31, 2012, respectively)	(44,062	) (41,777
Total shareholders' equity	747,728	746,007
Total liabilities and shareholders' equity	\$6,099,039	\$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	
	March 31,	
	2013	2012
	(dollars in thousands, except share data)	
Interest Income		
Interest and fees on loans	\$44,614	\$48,040
Interest and dividends on investments:		
Taxable interest	7,109	8,549
Interest exempt from federal income taxes	1	5
Dividends	36	21
Interest on bank deposits	1	1
Total interest income	51,761	56,616
Interest Expense		
Interest on deposits	4,191	6,247
Interest on short-term borrowings	220	227
Interest on subordinated debentures	1,384	1,433
Interest on other long-term debt	548	539
Total interest on long-term debt	1,932	1,972
Total interest expense	6,343	8,446
Net Interest Income	45,418	48,170
Provision for credit losses	4,497	3,787
Net Interest Income after Provision for Credit Losses	40,921	44,383
Noninterest Income		
Changes in fair value on impaired securities	1,864	1,498
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(1,864)	(1,498)
Net impairment losses	—	—
Net securities gains	4	—
Trust income	1,663	1,542
Service charges on deposit accounts	3,401	3,502
Insurance and retail brokerage commissions	1,417	1,424
Income from bank owned life insurance	1,428	1,445
Gain on sale of assets	275	2,115
Card related interchange income	3,188	3,114
Derivatives mark to market	989	606
Other income	2,520	3,632
Total noninterest income	14,885	17,380
Noninterest Expense		
Salaries and employee benefits	21,793	21,758
Net occupancy expense	3,635	3,404
Furniture and equipment expense	3,272	3,184
Data processing expense	1,516	1,563
Pennsylvania shares tax expense	1,190	1,183
Intangible amortization	358	371
Collection and repossession expense	1,151	2,699

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Other professional fees and services	969	1,199
FDIC insurance	1,050	1,237
Other operating expenses	6,520	10,154
Total noninterest expense	41,454	46,752
Income Before Income Taxes	14,352	15,011
Income tax provision	3,799	3,960
Net Income	\$10,553	\$11,051
Average Shares Outstanding	99,288,738	104,810,727
Average Shares Outstanding Assuming Dilution	99,305,414	104,816,442
Per Share Data:		
Basic Earnings per Share	\$0.11	\$0.11
Diluted Earnings per Share	\$0.11	\$0.11
Cash Dividends Declared per Common Share	\$0.05	\$0.03

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 INCOME (Unaudited)

	For the Three-Months Ended March 31,		
	2013	2012	
	(dollars in thousands)		
Net Income	\$10,553	\$11,051	
Other comprehensive (loss) income, before tax expense:			
Unrealized holding (losses) gains on securities arising during the period	(4,275	) 99
Non-credit related gains on securities not expected to be sold	1,864	1,498	
Less: reclassification adjustment for gains on securities included in net income	(4) —	
Total other comprehensive (loss) income, before tax expense	(2,415	) 1,597
Income tax benefit (expense) related to items of other comprehensive income	844	(558)
Total other comprehensive (loss) income	\$(1,571	) \$1,039
Comprehensive Income	\$8,982	\$12,090	

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				10,553				10,553
Other comprehensive loss					(1,571)			(1,571)
Cash dividends declared (\$0.05 per share)				(4,976)				(4,976)
Discount on dividend reinvestment plan purchases			(25)					(25)
Treasury stock acquired	(331,374)					(2,381)		(2,381)
Restricted stock	—	—	25	—		96		121
Balance at March 31, 2013	99,298,120	\$ 105,563	\$ 365,354	\$ 321,185	\$(312)	\$(44,062)	\$—	\$ 747,728
(dollars in thousands, except per share data)								
	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				11,051				11,051
Other comprehensive income					1,039			1,039
Cash dividends declared (\$0.03 per share)				(3,147)				(3,147)
Net decrease in unearned ESOP shares							500	500
ESOP market value adjustment (\$242, net of \$85 tax benefit)			(157)					(157)

Discount on dividend reinvestment plan purchases			(16)				(16)	
Tax benefit of stock options exercised			1				1	
Treasury stock reissued	33,024		—	(163)		373	210	
Restricted stock	100,000	—	11	(603)		(74)	(666)	
Balance at March 31, 2012	105,050,018	\$ 105,563	\$ 365,707	\$ 301,194	\$ 3,040	\$(7,046)	\$(1,100)	\$ 767,358

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 Three-Months Ended March 31,	
	2013	2012
	(dollars in thousands)	
Operating Activities		
Net income	\$10,553	\$11,051
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	4,497	3,787
Deferred tax expense	2,778	671
Depreciation and amortization	2,397	1,520
Net (gains) losses on securities and other assets	(1,081	) 567
Net amortization of premiums and discounts on securities	552	287
Net accretion of premiums and discounts on long-term debt	(29	) (28
Income from increase in cash surrender value of bank owned life insurance	(1,428	) (1,445
(Increase) decrease in interest receivable	(258	) 352
Decrease in interest payable	(826	) (1,177
Increase in income taxes payable	1,008	9,569
Other-net	(5,342	) (5,439
Net cash provided by operating activities	12,821	19,715
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	42	—
Proceeds from maturities and redemptions	75,603	149,201
Purchases	(204,505	) (212,061
Purchases of FHLB stock	(2,886) —
Proceeds from the redemption of FHLB stock	2,756	1,990
Proceeds from bank owned life insurance	178	—
Proceeds from sale of loans	14,099	6,809
Proceeds from sales of other assets	1,334	8,135
Net increase in loans	(41,343	) (90,600
Purchases of premises and equipment	(2,164	) (2,804
Net cash used in investing activities	(156,886	) (139,330
Financing Activities		
Net decrease in federal funds purchased	(14,800	) (43,800
Net (decrease) increase in other short-term borrowings	(33,327	) 40,396
Net increase in deposits	153,709	129,163
Repayments of other long-term debt	(123	) (118
Discount on dividend reinvestment plan purchases	(25	) (16
Dividends paid	(4,976	) (3,147
Proceeds from reissuance of treasury stock	—	210
Purchase of treasury stock	(3,604) —
Stock option tax benefit	—	1
Net cash provided by financing activities	96,854	122,689
Net (decrease) increase in cash and cash equivalents	(47,211	) 3,074
Cash and cash equivalents at January 1	102,982	78,478

Cash and cash equivalents at March 31	\$55,771	\$81,552
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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 three-months ended March 31, 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 (losses) gains on securities not expected to be sold are included in the "Noninterest Income" section of the Condensed Consolidated Statements of Income.

	For the Three-Months Ended March 31,					
	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	\$ (4,275	) \$ 1,495	\$ (2,780	) \$ 99	\$ (34	) \$ 65
Non-credit related gains on securities not expected to be sold	1,864	(652	) 1,212	1,498	(524	) 974
Reclassification adjustment for gains on securities included in net income	(4	) 1	(3) —	—	