

FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q/A
August 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A (Amendment No. 1)

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

For the quarterly period ended June 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 x 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 x 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 x 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 x

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of August 5, 2013, was 96,442,161.

Explanatory Note

On August 8, 2013, First Commonwealth Financial Corporation ("First Commonwealth") filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. The table under the heading "Capital Resources" of Part I, Item 2 of the Report, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), erroneously contained regulatory capital amounts and ratios as of June 30, 2012. The sole purpose of this amendment is to correct the information contained under the "Capital Resources" section of the MD&A. Except as specifically noted above, this amendment does not modify or update disclosures in the original Form 10-Q. Accordingly, this amendment does not reflect events occurring after the filing of the original Form 10-Q or modify or update any related or other disclosures.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ("First Commonwealth") for the three- and six-months ended June 30, 2013 and 2012, and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of words such as "may," "will," "should," "could," "would," "plan," "believe," "expect," "anticipate," "intend," "estimate" or words of similar meaning. Forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting us, summarizes several factors that could cause our actual results to differ materially from those anticipated or expected in these forward-looking statements:

- continued weakness in economic and business conditions, both nationally and in our markets, which could cause deterioration in credit quality, a further reduction in demand for credit and/or a further decline in real estate values;
- prolonged low interest rates, which could reduce our net interest margin;
- increases in defaults by borrowers and other delinquencies, which could result in increases in our provision for credit losses and related expenses;
- further declines in the market value of investment securities that are considered to be other-than-temporary, which would negatively impact our earnings and capital levels;
- cyber-attacks and fraud, which could disrupt our systems and services, breach the privacy of our customer and business information or result in loss of client assets;
- further declines in the valuations of real estate, which could negatively affect the creditworthiness of our borrowers and the value of collateral securing our loans;
- the assumptions used in calculating the appropriate amount to be placed into our allowance for credit losses may prove to be inaccurate;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- legislative and regulatory changes, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations, subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- changes in accounting standards and compliance requirements may have an adverse affect on our operating results and financial condition;
- competitive pressures among depository and other financial institutions, some of which may have greater financial resources or more attractive product or service offerings, may adversely affect growth or profitability of our products and services; and
- other risks and uncertainties described in this report and in the other reports that we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Explanation of Use of Non-GAAP Financial Measure

In addition to the results of operations presented in accordance with generally accepted accounting principles (“GAAP”), First Commonwealth management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis. We believe this non-GAAP financial measure provides information useful to investors in understanding our underlying operational performance and our business and performance trends as it facilitates comparison with the performance of others in the financial services industry. Although we believe that this non-GAAP financial measure enhances investors’ understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on page 41 for the six-months ended June 30, 2013 and 2012.

Results of Operations

Six-Months Ended June 30, 2013 Compared to Six-Months Ended June 30, 2012

Net Income

For the six-months ended June 30, 2013, First Commonwealth had net income of \$16.4 million, or \$0.17 per share, compared to net income of \$23.4 million or \$0.22 per share in the six-months ended June 30, 2012. The decrease in net income was caused by declines in net interest and noninterest income as well as a higher provision for credit losses, partially offset by reductions in noninterest expense.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was \$93.2 million in the first six months of 2013 compared to \$97.4 million for the same period in 2012. Net interest income comprises a majority of our operating revenue (net interest income before the provision plus noninterest income) at 75% and 74% for the six-months ended June 30, 2013 and 2012, respectively.

Net interest margin, on a fully taxable equivalent basis, was 3.40% for the six-months ended June 30, 2013 compared to 3.68% for the six-months ended June 30, 2012. The 28 basis point decline was affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities. The recognition in 2012 of \$1.0 million in interest income related to the payoff of a loan that was previously in nonaccrual status also contributed to the decline, increasing the net interest margin by four basis points for the six-months ended June 30, 2012.

The low interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the six-months ended June 30, 2013. New volume spreads for the commercial portfolio resulted from a disciplined pricing approach; however competitive pricing pressures have resulted in reduced spreads on consumer loans, specifically home equity and indirect loans. Also contributing to lower yields on earnings assets is the runoff of existing assets which are earning higher interest rates and growth in the investment portfolio. Growth in earning assets has helped to offset the impact of runoff, as average earning assets for the six-months ended June 30, 2013 increased \$200.5 million, or 4%, compared to the comparable period in 2012. However, approximately 44% of the growth in earning assets relates to the investment portfolio, which is earning approximately 200 basis points less than growth in the loan portfolio. Investment portfolio purchases during the six-months ended June 30, 2013, have been primarily in mortgage-related assets with approximate durations of 36-48 months. The majority of these investments have monthly principal payments which will provide for reinvestment opportunities as interest rates rise. It is expected that the challenges to the net interest margin will continue as \$2.8 billion in interest-sensitive assets either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.82% for the six-months ended June 30, 2013, a decrease of 47 basis points from the 4.29% yield for the same period in 2012. This decline can be attributed to the repricing of our adjustable rate assets in a declining interest rate environment as well as lower interest rates available on new investments and loans. Reductions in the cost of interest-bearing liabilities partially offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.53% for the six-months ended June 30, 2013, compared to 0.76% for the same period in 2012.

Comparing the six-months ended June 30, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by \$7.0 million. The lower yield on interest-earning assets adversely impacted net interest income by \$12.7 million, while the decline in the cost of interest-bearing liabilities had a positive impact of \$5.7 million. We have been able to partially mitigate the impact of lower interest rates and the effect on net interest

income through improving the mix of deposit and borrowed funds, loan growth and increasing our investment volumes within established interest rate risk management guidelines. As part of these strategies, on April 1, 2013, the Company redeemed \$32.5 million in issued and outstanding 9.50% mandatorily redeemable capital securities issued by First Commonwealth Capital Trust I and replaced the funds with lower cost funding alternatives.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets tempered the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

positively impacted net interest income by \$2.8 million in the six-months ended June 30, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of \$3.9 million in interest income, while volume changes primarily attributed to long term borrowings increased interest expense by \$1.1 million.

Positively affecting net interest income was a \$74.5 million increase in average net free funds at June 30, 2013 as compared to June 30, 2012. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders' equity over noninterest-earning assets. The largest component of the increase in net free funds was an increase in noninterest-bearing demand deposit average balances as a result of marketing promotions aimed at attracting new and retaining existing customers. Additionally, higher costing time deposits continue to mature and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the six-months ended June 30, 2013 decreased \$5.1 million compared to the comparable period in 2012. The positive change in deposit mix is expected to continue as \$700.8 million in certificates of deposits either mature or reprice over the next twelve months.

The following table reconciles interest income in the Condensed Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the six-months ended June 30:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	\$102,742	\$111,328
Adjustment to fully taxable equivalent basis	2,058	2,307
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	104,800	113,635
Interest expense	11,626	16,240
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	\$93,174	\$97,395

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following is an analysis of the average balance sheets and net interest income on a fully taxable equivalent basis, for the six-months ended June 30:

	2013			2012			
	Average Balance	Income / Expense (a)	Yield or Rate	Average Balance	Income / Expense (a)	Yield or Rate	
	(dollars in thousands)						
Assets							
Interest-earning assets:							
Interest-bearing deposits with banks	\$3,149	\$3	0.19	%\$3,580	\$2	0.11	%
Tax-free investment securities (e)	85	3	7.40	454	16	7.09	
Taxable investment securities	1,281,409	14,494	2.28	1,192,914	16,868	2.84	
Loans, net of unearned income (b)(c)	4,242,800	90,300	4.29	4,129,977	96,749	4.71	
Total interest-earning assets	5,527,443	104,800	3.82	5,326,925	113,635	4.29	
Noninterest-earning assets:							
Cash	71,883			74,069			
Allowance for credit losses	(66,572))		(64,203))		
Other assets	568,260			586,509			
Total noninterest-earning assets	573,571			596,375			
Total Assets	\$6,101,014			\$5,923,300			
Liabilities and Shareholders' Equity							
Interest-bearing liabilities:							
Interest-bearing demand deposits (d)	\$677,879	\$130	0.04	%\$636,382	\$158	0.05	%
Savings deposits (d)	1,940,790	1,682	0.17	1,928,454	2,299	0.24	
Time deposits	1,179,196	6,386	1.09	1,184,338	9,433	1.60	
Short-term borrowings	400,827	507	0.26	378,407	506	0.27	
Long-term debt	250,569	2,921	2.35	195,614	3,844	3.95	
Total interest-bearing liabilities	4,449,261	11,626	0.53	4,323,195	16,240	0.76	
Noninterest-bearing liabilities and shareholders' equity:							