


NYSE: FCF

# Supplemental Financial Information

Second Quarter 2015

July 29, 2015

# Forward-looking statements

This presentation contains forward-looking statements about First Commonwealth's future plans, strategies and financial performance. These statements can be identified by the fact that they do not relate strictly to historical or current facts and often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may." Such statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control. Factors that could cause actual results, performance or achievements to differ from those discussed in the forward-looking statements include, but are not limited to:

- *Local, regional, national and international economic conditions and the impact they may have on First Commonwealth and its customers;*
- *volatility and disruption in national and international financial markets;*
- *the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;*
- *inflation, interest rate, commodity price, securities market and monetary fluctuations;*
- *the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which First Commonwealth must comply;*
- *the soundness of other financial institutions;*
- *political instability;*
- *impairment of First Commonwealth's goodwill or other intangible assets;*
- *acts of God or of war or terrorism;*
- *the timely development and acceptance of new products and services and perceived overall value of these products and services by users;*
- *changes in consumer spending, borrowings and savings habits;*
- *changes in the financial performance and/or condition of First Commonwealth's borrowers;*
- *technological changes;*
- *acquisitions and integration of acquired businesses;*
- *First Commonwealth's ability to attract and retain qualified employees;*
- *changes in the competitive environment in First Commonwealth's markets and among banking organizations and other financial service providers;*
- *the ability to increase market share and control expenses;*
- *the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;*
- *the reliability of First Commonwealth's vendors, internal control systems or information systems;*
- *the costs and effects of legal and regulatory developments, the resolution of legal proceedings or regulatory or other governmental inquiries, the results of regulatory examinations or reviews and the ability to obtain required regulatory approvals; and*
- *other risks and uncertainties described in the reports that First Commonwealth files with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.*

Forward-looking statements speak only as of the date on which they are made. First Commonwealth undertakes no obligation to update any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

# 2Q 2015 Highlights

| | 2Q15 | 1Q15 | 2Q14 | Change from 1Q15 | Change from 2Q14 |
|---|---|---|---|---|---|
| Net interest income[1] | $47.2 | $48.0 | $46.2 | *($0.8)* | *$1.0* |
| Provision for credit losses | 3.0 | 1.1 | 3.3 | *1.9* | *(0.3)* |
| Fee revenue | 15.9 | 13.9 | 14.9 | *2.0* | *1.0* |
| Gain on sale of securities | 0.0 | 0.1 | 0.0 | *(0.1)* | *0.0* |
| Gain on sale of other assets | 0.4 | 0.2 | 2.1 | *0.2* | *(1.7)* |
| Operating expense[2] | 38.7 | 38.5 | 38.9 | *0.2* | *(0.2)* |
| Other expense[2] | 1.9 | 1.3 | 3.5 | *0.6* | *(1.6)* |
| Income taxes[1] | 6.5 | 7.1 | 5.6 | *(0.6)* | *0.9* |
| **Net income** | **13.4** | **14.2** | **11.9** | ***(0.8)*** | ***1.5*** |
| Reported EPS | $0.15 | $0.16 | $0.13 | *($0.01)* | *$0.02* |
| Operating EPS[2] | $0.16 | $0.16 | $0.14 | *$0.00* | *$0.02* |
| Return on average assets | 0.85% | 0.91% | 0.77% | *(0.06%)* | *0.08%* |
| Return on average equity | 7.57% | 8.03% | 6.62% | *(0.46%)* | *0.95%* |
| Return on average tang. common equity | 9.82% | 10.39% | 8.50% | *(0.57%)* | *1.32%* |
| Efficiency ratio[3] | 63.96% | 64.20% | 67.09% | *(0.24%)* | *(3.13%)* |
| Net interest margin[1] | 3.26% | 3.35% | 3.26% | *(0.09%)* | *0.00%* |
| Net Chargeoffs[4] | 0.39% | 0.59% | 0.66% | *(0.20%)* | *(0.27%)* |

- Net income of $13.4 million decreased by $0.8 million compared to linked quarter (LQ) and increased $1.5 million year-over-year (YoY)
- Maintained positive operating leverage LQ and YoY in that revenue growth outstripped growth in expenses
- Net interest income decreased $0.8 million to LQ as a result of a special Federal Home Loan Bank dividend of $1.0 million received in the first quarter of 2015
- Fee revenue grew $2.0 million over LQ, driven by increases in service charges on deposit accounts and commercial loan swap related income

(1) Taxable equivalent
(2) Please refer to pages 12 - 14 for disclosures regarding non-GAAP measures
(3) Efficiency ratio is calculated as noninterest expense as a percentage of net interest income, on a fully taxable equivalent basis, and total noninterest income, excluding net securities gains and losses
(4) Quarter-to-date annualized

$ in millions, except per share data

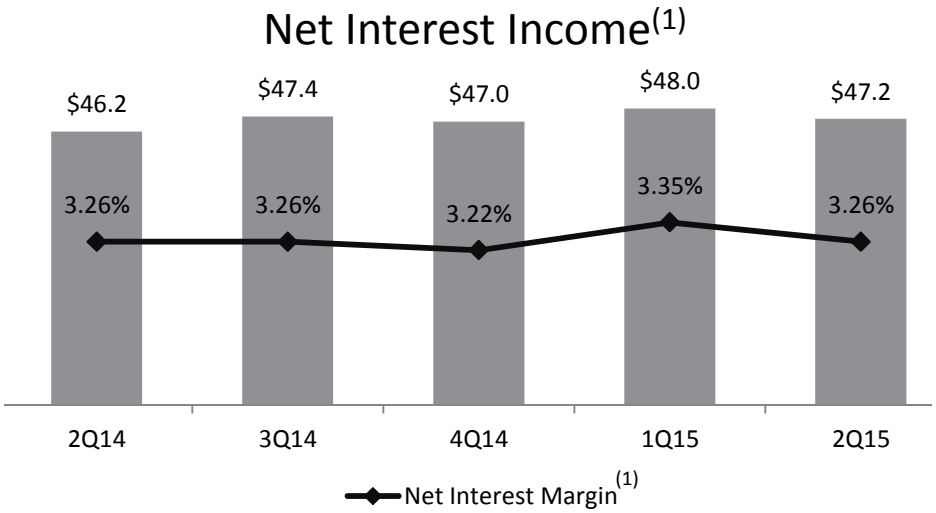
# Balance Sheet

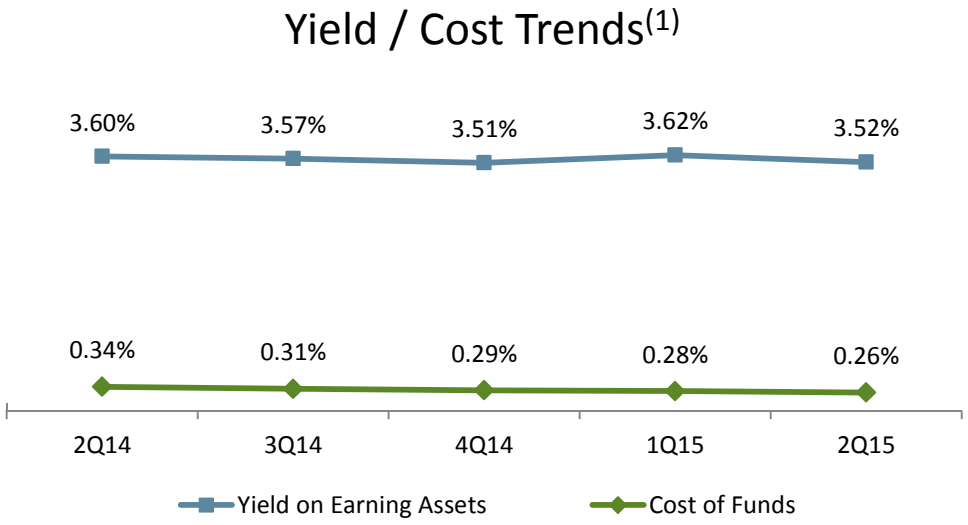
| Period-end Balances | 2Q15 | 1Q15 | 2Q14 | Change from 1Q15 | Change from 2Q14 |
|---|---|---|---|---|---|
| Cash & securities | $1,342 | $1,412 | $1,490 | *($70)* | *($148)* |
| Loans held for sale | 10 | 6 | 0 | *4* | *10* |
| Commercial loans | 2,640 | 2,575 | 2,469 | *65* | *171* |
| Consumer loans | 1,851 | 1,863 | 1,865 | *(12)* | *(14)* |
| Allowance for credit losses | (45) | (47) | (51) | *2* | *6* |
| OREO | 7 | 7 | 8 | *0* | *(1)* |
| Goodwill & intangibles | 163 | 163 | 160 | *0* | *3* |
| Other | 349 | 353 | 359 | *(4)* | *(10)* |
| **Total Assets** | **$6,317** | **$6,332** | **$6,300** | ***($15)*** | ***$17*** |
| | | | | | |
| Noninterest Bearing DDA | $1,068 | $1,040 | $1,008 | *$28* | *$60* |
| Interest Bearing Savings & DDA | 2,519 | 2,536 | 2,471 | *(17)* | *48* |
| Time Deposits | 608 | 643 | 795 | *(35)* | *(187)* |
| Brokered Deposits | 15 | 75 | 186 | *(60)* | *(171)* |
| Short-term Borrowings | 1,232 | 1,126 | 846 | *106* | *386* |
| Long-term Debt | 112 | 136 | 209 | *(24)* | *(97)* |
| Other | 52 | 63 | 60 | *(11)* | *(8)* |
| Equity | 711 | 713 | 725 | *(2)* | *(14)* |
| **Total Liabilities & Equity** | **$6,317** | **$6,332** | **$6,300** | ***($15)*** | ***$17*** |

- End-of-period (EOP) loans increased $57 million compared to LQ primarily due to $34 million growth in Commercial Real Estate (CRE) and Construction as well as $31 million growth in Commercial and Industrial (C&I) balances
- Total deposits decreased $84 million to LQ due to an intentional shift from brokered deposits into short-term borrowings
- Noninterest bearing demand deposits increased $28 million, or 10.8% annualized, over LQ and currently comprise over 25% of total deposits
- Completed remaining $6.4 million of $25.0 million buyback authorization during 2Q15

$ in millions

# Net interest income and net interest margin



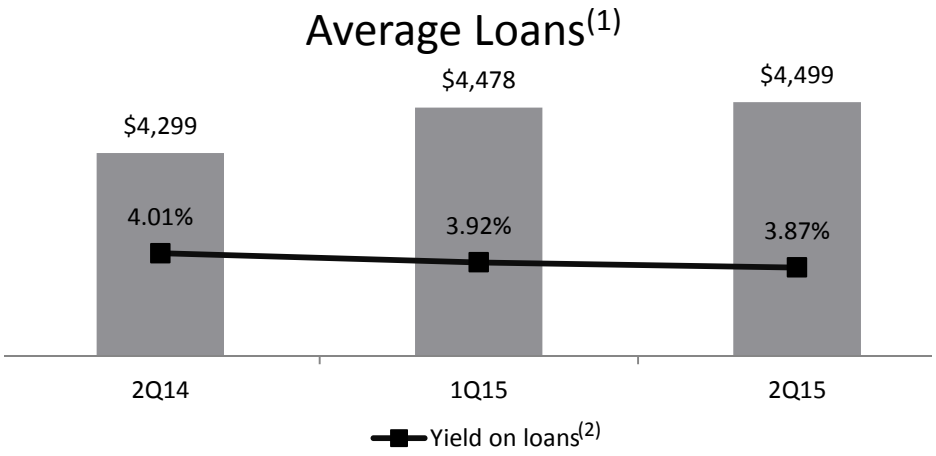



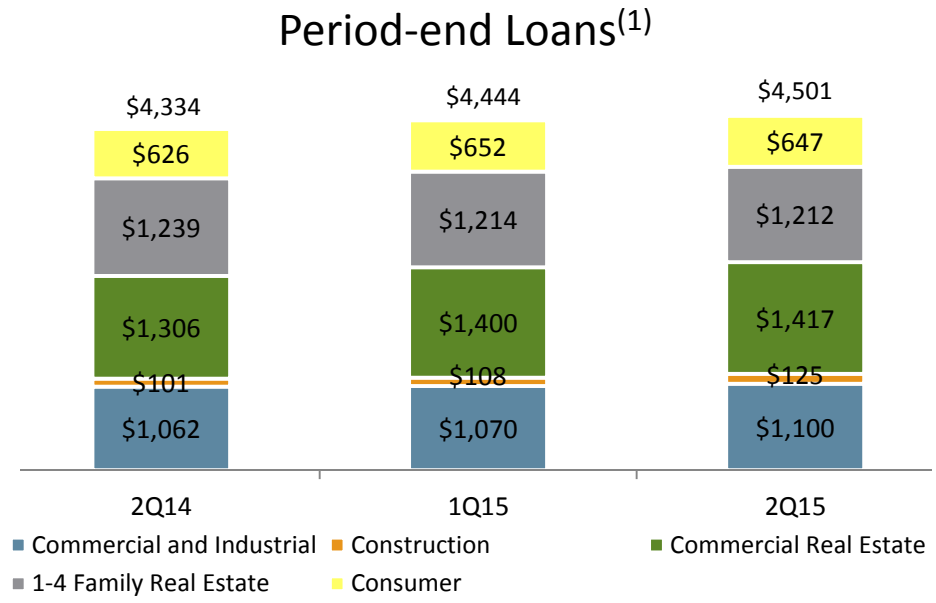

- Net interest income decreased $0.8 million to LQ as a result of a special Federal Home Loan Bank dividend of $1.0 million received in the first quarter of 2015
- NIM of 3.26% declined 9bps over LQ due to:
  - Special one-time FHLB dividend -7bps
  - Lower loan yields -5bps
  - Lower funding costs +2bps
- Average interest earning assets decreased $11 million LQ
  - Yield on interest earning assets declined by 10bps, 4bps of which were due to the one-time FHLB dividend

(1) Taxable equivalent

$ in millions

# Loans




(1) Includes loans held for sale
(2) Taxable equivalent yield

## Average

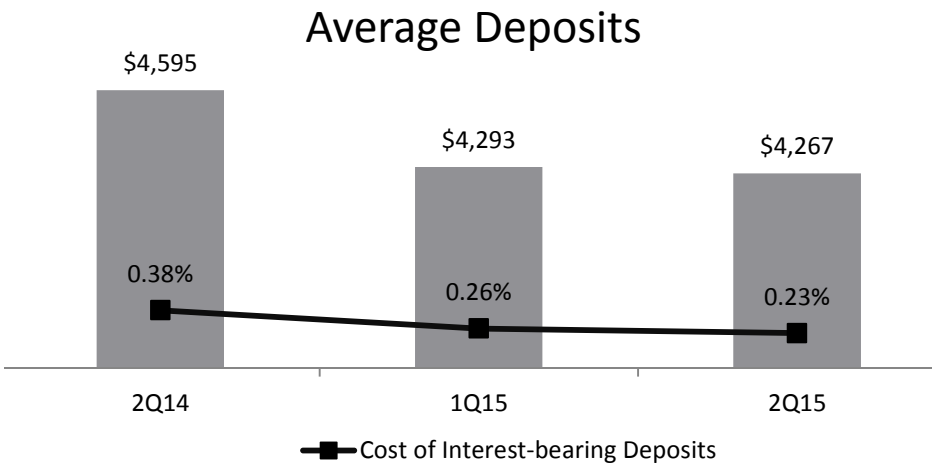
- Average loans grew $21 million to LQ, or 1.9% annualized
- Yield on loans of 3.87% decreased 5bps from LQ
  - Favorable loan replacement yields for commercial loans were more than offset by unfavorable replacement yields in other categories

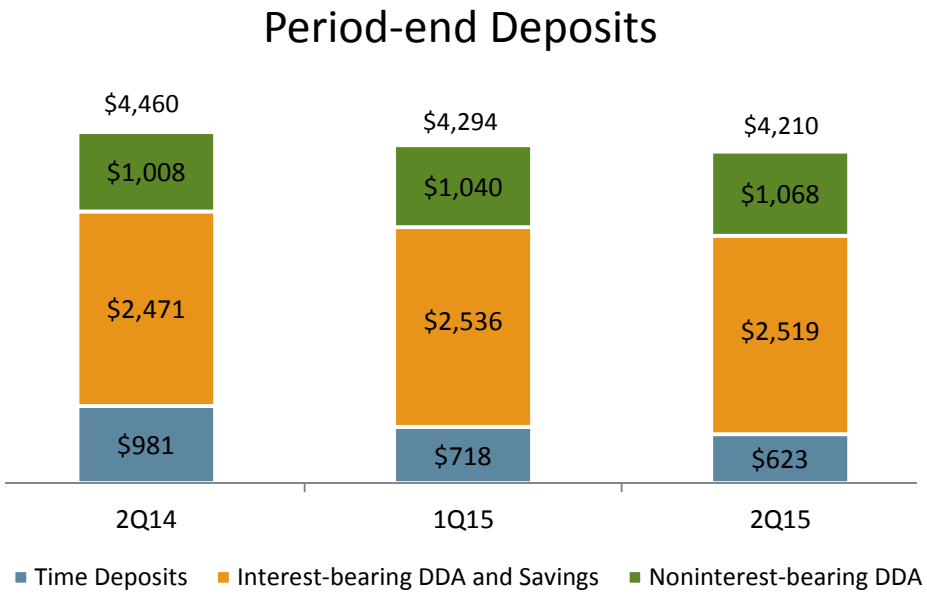
## Period-end

- Loans increased $57 million to LQ, or 5.1% annualized, and grew $167 million YoY, driven primarily by commercial lending

$ in millions

# Deposits




## Average

- Average deposits decreased $26 million over LQ, driven by $50 million intentional runoff of higher cost brokered deposits
- Cost of interest-bearing deposits of 0.23% decreased 3bps over LQ

## Period-end

- Deposits decreased $84 million to LQ due to a $95 million decrease in time deposits, of which $60 million was due to the intentional runoff of higher cost brokered deposits
- Noninterest bearing demand deposits increased $28 million, or 10.8% annualized, over LQ and currently comprise over 25% of total deposits

$ in millions

# Noninterest income

| | 2Q15 | 1Q15 | 2Q14 | Change from 1Q15 | Change from 2Q14 |
|---|---|---|---|---|---|
| Service charges | $3.9 | $3.3 | $4.1 | *$0.6* | *($0.2)* |
| Interchange | 3.7 | 3.4 | 3.7 | *0.3* | *0.0* |
| Trust | 1.5 | 1.4 | 1.5 | *0.1* | *0.0* |
| Retail brokerage | 1.1 | 1.1 | 0.8 | *0.0* | *0.3* |
| Insurance | 1.0 | 1.1 | 0.8 | *(0.1)* | *0.2* |
| BOLI | 1.4 | 1.4 | 1.4 | *0.0* | *0.0* |
| SWAP activity | 0.8 | 0.1 | 0.8 | *0.7* | *0.0* |
| Gain on sale of loans | 0.6 | 0.4 | 0.1 | *0.2* | *0.5* |
| Other fees | 1.9 | 1.6 | 1.7 | *0.3* | *0.2* |
| **Total fee income** | **15.9** | **13.8** | **14.9** | ***2.1*** | ***1.0*** |
| Gain on sale of securities | 0.0 | 0.1 | 0.0 | *(0.1)* | *0.0* |
| Gain on sale of assets | 0.4 | 0.2 | 2.1 | *0.2* | *(1.7)* |
| **Total noninterest income** | **16.3** | **14.1** | **17.0** | ***2.2*** | ***(0.7)*** |

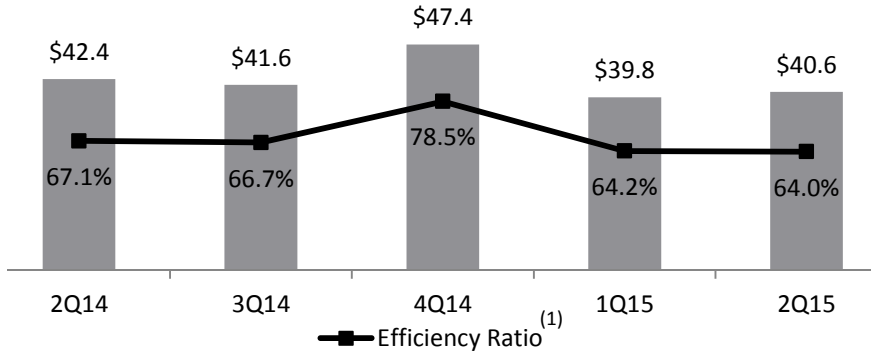



- Deposit service charges increased $0.6 million over LQ primarily due to $0.4 million higher NSF/overdraft activity
- Insurance income increased YoY as a result of increased production and the acquisition of a local insurance agency in 4Q14
- Retail brokerage income improved YoY due to increased referrals, new hires and a focus on gathering retirement assets
- Swap activity was impacted by a $0.8 million positive credit risk adjustment in 2Q15 compared to 1Q15
- Other fees increased $0.3 million over LQ primarily due to a new merchant service provider engaged in 2Q15
- Gain on sale of assets decreased YoY due to the sale of an OREO property in 2Q14

$ in millions

# Noninterest expense

| | 2Q15 | 1Q15 | 2Q14 | Change from 1Q15 | Change from 2Q14 |
|---|---|---|---|---|---|
| Salaries and benefits | $22.0 | $21.9 | $21.9 | *$0.1* | *$0.1* |
| Occupancy | 3.3 | 3.9 | 3.3 | *(0.6)* | *0.0* |
| Furniture and equipment | 2.6 | 2.7 | 3.1 | *(0.1)* | *(0.5)* |
| PA shares tax | 1.1 | 0.8 | 1.0 | *0.3* | *0.1* |
| Data processing | 1.5 | 1.4 | 1.5 | *0.1* | *0.0* |
| Collection and repo | 0.9 | 0.5 | 0.4 | *0.4* | *0.5* |
| Professional fees | 0.9 | 0.9 | 0.7 | *0.0* | *0.2* |
| FDIC insurance | 1.0 | 1.1 | 1.1 | *(0.1)* | *(0.1)* |
| Unfunded commitments | 0.2 | 0.5 | 0.3 | *(0.3)* | *(0.1)* |
| Other operating expenses | 5.2 | 4.8 | 5.6 | *0.4* | *(0.4)* |
| **Total operating expense** | **38.7** | **38.5** | **38.9** | ***0.2*** | ***(0.2)*** |
| Operational losses | 0.3 | 1.0 | 0.2 | *(0.7)* | *0.1* |
| Write-down of assets | 1.6 | 0.3 | 0.7 | *1.3* | *0.9* |
| Conversion related | 0.0 | 0.0 | 2.6 | *0.0* | *(2.6)* |
| **Total noninterest expense** | **40.6** | **39.8** | **42.4** | ***0.8*** | ***(1.8)*** |



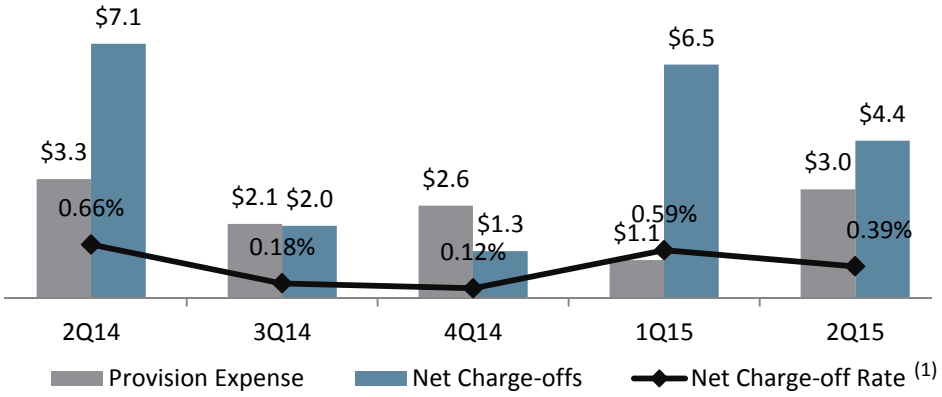

$ in millions

- Total noninterest expense increased $0.8 million to LQ driven by higher OREO write-downs and collection costs; operating expenses increased by $0.2 million
- Salaries and benefits remained relatively flat to LQ and YoY despite the launch of our mortgage initiative and insurance agency acquisition
- Occupancy expense decreased $0.6 million to LQ due to higher snow removal and utilities in 1Q15
- Furniture and equipment decreased $0.5 million YoY as a result of lower software/hardware maintenance and programming post conversion
- Operational losses decreased $0.7 million to LQ due to $0.8 million debit card fraud losses in 1Q15

(1) Efficiency ratio is calculated as noninterest expense as a percentage of net interest income, on a fully taxable equivalent basis, and total noninterest income, excluding net securities gains and losses

# Credit quality

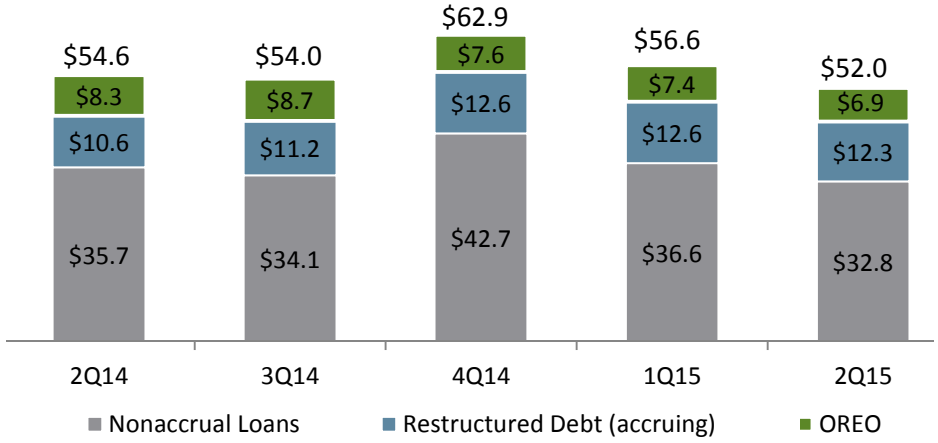
## Provision Expense and Net Charge-offs




- Provision expense of $3.0 million increased $1.9 million to LQ as a result of a $1.0 million increase in general reserves and a $0.6 million increase in a specific reserve on a loan previously classified as nonperforming

- Net charge-offs were $4.4 million during 2Q15, primarily driven by a $2.3 million write-down of a specific reserve on a loan to a contractor that was classified as nonaccrual during 4Q14

## Nonperforming Assets

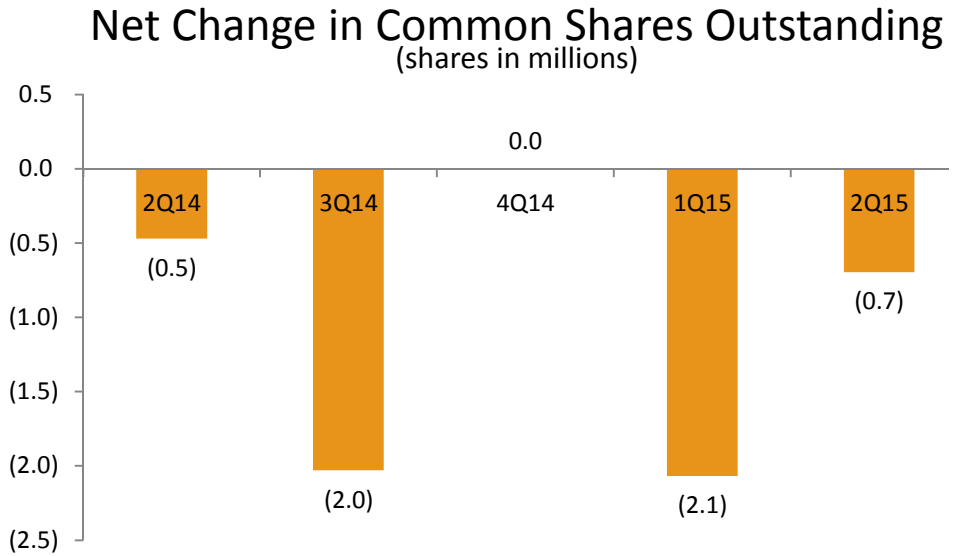


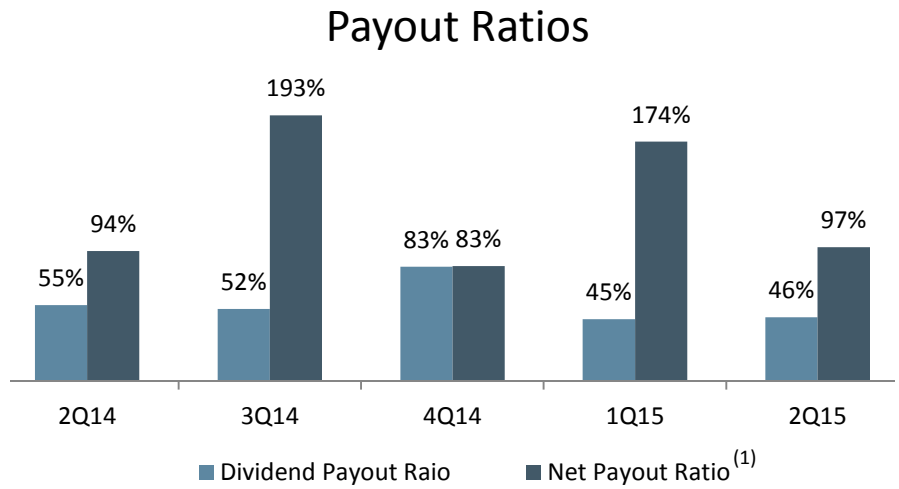

- Nonperforming loans declined $4.1 million to LQ due to a write-down and pay down on one commercial credit

(1) Net charge-offs as a percentage of period-to-date average loans, annualized

$ in millions

# Capital Return




- Average shares outstanding decreased 2.0 million and period-end shares deceased 696 thousand compared to LQ
  - Repurchased 714 thousand shares at an average price of $9.09 in 2Q15
  - No shares remain in current buyback authorization

- Strong capital levels allow us to continue to return capital to shareholders
  - Returned $25.0 million in share buybacks to shareholders in 2015
  - Returned $12.6 million in dividends to shareholders in 2015
  - Dividend payout ratio expected to remain in the 40%-60% range

(1) Net payout ratio represents common stock dividends and share repurchases less share issuances and stock compensation-related items, divided by net income attributable to common stock.

# Non-GAAP measures

| Operating Revenue | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q14 | 1Q14 |
|---|---|---|---|---|---|---|
| Net Interest Income | $46.4 | $47.2 | $46.2 | $46.6 | $45.4 | $45.6 |
| Tax equivalent adjustment | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Net Interest Income (FTE) | 47.2 | 48.0 | 47.0 | 47.4 | 46.2 | 46.5 |
| Noninterest Income (Reported) | 16.3 | 14.1 | 13.9 | 15.1 | 17.0 | 14.9 |
| Less: Realized gains/ (losses) on securities | 0.0 | 0.1 | 0.5 | 0.0 | 0.0 | 0.0 |
| Less: Gain on sale of other assets | 0.4 | 0.2 | 0.1 | 0.7 | 2.1 | 1.6 |
| Total Noninterest Income (Operating) | $15.9 | $13.8 | $13.3 | $14.4 | $14.9 | $13.3 |
| Total Operating Revenue | $63.1 | $61.8 | $60.3 | $61.8 | $61.1 | $59.8 |
| Average Assets | 6,361 | 6,358 | 6,343 | 6,325 | 6,231 | 6,223 |
| **Operating Revenue/ Average Assets (%)** | **0.99%** | **0.97%** | **0.95%** | **0.98%** | **0.98%** | **0.96%** |

| Operating Expense | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q14 | 1Q14 |
|---|---|---|---|---|---|---|
| Noninterest Expense | $40.6 | $39.8 | $47.4 | $41.6 | $42.4 | $39.9 |
| Less: Conversion-related expenses | 0.0 | 0.0 | 0.1 | 2.2 | 2.6 | 2.4 |
| Less: Loss on sale or writedown of other assets | 1.6 | 0.3 | 0.4 | 0.1 | 0.7 | 0.4 |
| Less: Building donation | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 |
| Less: Legal contingency reserve | 0.0 | 0.0 | 8.6 | 0.0 | 0.0 | 0.0 |
| Less: Operational losses/(recoveries) | 0.3 | 1.0 | (1.5) | 0.2 | 0.2 | (0.7) |
| Total Operating Expense | $38.7 | $38.5 | $39.1 | $39.1 | $38.9 | $37.8 |
| Average Assets | 6,361 | 6,358 | 6,343 | 6,325 | 6,231 | 6,223 |
| **Operating Expense/ Average Assets (%)** | **0.61%** | **0.61%** | **0.62%** | **0.62%** | **0.62%** | **0.61%** |

$ in millions

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

# Non-GAAP measures

| Operating Earnings per Share | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q14 | 1Q14 |
|---|---|---|---|---|---|---|
| Net Income (GAAP) | $13.4 | $14.2 | $7.7 | $12.5 | $11.9 | $12.3 |
| Average Diluted Shares Outstanding | 88.9 | 90.9 | 91.6 | 92.6 | 93.8 | 94.6 |
| **Earnings per Share (GAAP)** | **$0.15** | **$0.16** | **$0.08** | **$0.13** | **$0.13** | **$0.13** |
| | | | | | | |
| *(after tax)* | | | | | | |
| Less: Net security (losses) / gains | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Less: Gain on sale of other assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 |
| Add: Conversion-related expenses | 0.00 | 0.00 | 0.00 | 0.01 | 0.02 | 0.02 |
| Add: Loss on sale or writedown of other assets | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 |
| Add: Building donation | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 |
| Add: Legal contingency reserve | 0.00 | 0.00 | 0.06 | 0.00 | 0.00 | 0.00 |
| Add: Operational losses/(recoveries) | 0.00 | 0.00 | (0.02) | 0.00 | 0.00 | 0.00 |
| **Operating Earnings per Share (Non-GAAP)** | **$0.16** | **$0.16** | **$0.13** | **$0.14** | **$0.14** | **$0.14** |

| Tangible Common Equity/ Tangible Assets (Tangible Common Equity Ratio) | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q14 | 1Q14 |
|---|---|---|---|---|---|---|
| Total Equity | $711 | $713 | $716 | $709 | $725 | $717 |
| Less: Intangible assets | 163 | 163 | 163 | 160 | 160 | 161 |
| Less: Preferred stock | 0 | 0 | 0 | 0 | 0 | 0 |
| Tangible Common Equity | $548 | $550 | $553 | $549 | $565 | $556 |
| | | | | | | |
| Total Assets | $6,317 | $6,332 | $6,360 | $6,356 | $6,300 | $6,209 |
| Less: Intangible assets | 163 | 163 | 163 | 160 | 160 | 161 |
| Tangible Assets | $6,154 | $6,169 | $6,197 | $6,196 | $6,140 | $6,048 |
| | | | | | | |
| **Tangible Common Equity/ Tangible Assets** | **8.9%** | **8.9%** | **8.9%** | **8.9%** | **9.2%** | **9.2%** |

$ in millions, except per share data

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

# Non-GAAP measures

| Return on Average Tangible Common Equity (%) | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q14 | 1Q14 |
|---|---|---|---|---|---|---|
| Average Equity | $712 | $718 | $720 | $718 | $723 | $717 |
| Less: Average Intangible assets | 163 | 163 | 161 | 160 | 160 | 162 |
| Less: Average Preferred stock | 0 | 0 | 0 | 0 | 0 | 0 |
| Average Tangible Common Equity | $549 | $555 | $559 | $558 | $563 | $555 |
| Net Income (GAAP) | $13.4 | $14.2 | $7.7 | $12.5 | $11.9 | $12.3 |
| **Return on Average Tangble Common Equity** | **9.8%** | **10.4%** | **5.5%** | **8.9%** | **8.5%** | **9.0%** |

$ in millions, except per share data

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.




NYSE: FCF

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