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With 115 Branches In 15 Counties, First Commonwealth Financial Corporation Is Filling Customers' Community Banking Needs Throughout Western Pennsylvania

**Financial
Regional – Northeast Banks
(FCF-NYSE)**

**First Commonwealth
Financial Corporation**

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**John J. Dolan
President and CEO**

BIO:

John J. Dolan

Mr. Dolan is President and CEO of First Commonwealth Financial Corporation. He formerly served as Chief Financial Officer of the corporation for 21 years. He joined First Commonwealth as Staff Accountant in 1980 and, over the years, has held various executive positions with First Commonwealth's affiliated companies. Mr. Dolan currently serves on 10 non-affiliated organization boards – eight related to economic development. He formerly served on the Pennsylvania State Board of Accountancy. John Dolan earned his Bachelor of Science degree in business administration from West Liberty University (WV) and authored the

Commercial Banking Chapter of the "Encyclopedia of Accountancy Systems."

Company Profile:

First Commonwealth Financial Corporation is a \$5.9 billion financial holding company headquartered in Indiana, Pennsylvania. It operates 115 retail branch offices in 15 counties in western and central Pennsylvania through First Commonwealth Bank, a Pennsylvania chartered bank and trust company. Financial services and insurance products are also provided through First Commonwealth Insurance Agency and First Commonwealth Financial Advisors, Inc.

The company's culture is well defined by a history of small-town, community banking. As First Commonwealth has grown, that heritage has not been lost. First Commonwealth's Headquarters Building is uniquely located in one of Western PA's most cherished landmarks . . . the original Indiana County Courthouse built in 1870 under Ulysses S. Grant's administration. Today, the courthouse and the adjacent plaza (including the 1887 jail and sheriff's house) not only house the company's corporate offices and data centers, it is also the site of many community celebrations. Even the company 'logo' – a clock tower – is symbolic of the many towns and communities it serves. Oftentimes, the courthouse building is still a visible centerpiece in local communities, representing the soundness, stability and the very essence of the community itself. First Commonwealth employees proudly wear their gold clock tower lapel pins as a symbol of their company's commitment to community banking.

**Interview conducted by:
Bud Wayne, Editorial Executive
CEOCFOinterviews.com**

CEOCFO: Mr. Dolan, how did you come to be a part of First Commonwealth Financial, and what is the vision for the company?

Mr. Dolan: I started with First Commonwealth almost thirty-one years ago – my first job when I came on board was as a staff accountant. Back then, we were a small community bank with about \$215 million in assets, and today we are around \$6 billion, so we have grown quite a bit. The growth came about via acquisitions beginning in the 1980's through the early 2000's; then from 2007 through 2010, we began building with an organic growth model. In 2007, I became CEO after serving as CFO for twenty-one years; my transition to CEO occurred when our previous CEO retired. First Commonwealth is a commercial bank, which primarily provides a diversified array of consumer and commercial banking services. We support the needs of consumers, small businesses, and large corporate accounts; that would be with cash management loans, commercial insurance, health insurance and wealth management services like asset management and financial planning. Our vision is to deliver locally as a responsible community bank.

CEOCFO: Would you tell us about your branch network?

Mr. Dolan: We have 115 branches located in 15 counties throughout the western half of the state of Pennsylvania. In our branch network, we have 65 branches in the Pittsburgh MSA; we had about 20 branches in the Pittsburgh MSA seven years ago, so that's been a large area of growth. We made a decision that Pittsburgh needed a community banking option. The large banks were already well represented. There are also a number of other large institutions trying to make their way into Pittsburgh, but we thought there was a need to deliver the community bank approach, and we want to be the ones to provide that.

CEOCFO: Are you targeting consumer customers or is it just through the conversion of your corporate customers?

Mr. Dolan: It is two-fold. One is having the branch location in the right areas.

Some people like to bank where they work and some people like to bank where they live, so we need to make sure that we are accessible through our branch network. The other is that we have a good focus on the small business customer. With the small business customer, not only do you get the owner and his business into the bank, but many times, they also refer their employees. We have a program called Work Smart Banking that allows our folks to go into a business and let their employees know about the services we offer that could be of benefit to them. That's our approach – we attract customers by being in the right places and also working closely with the small business owners and corporate customers.

CEOCFO: What differentiates your bank from the other small local banks or large nationwide banks?

Mr. Dolan: We believe that we have a little bit of both. We have the community bank touch and feel that the large banks cannot reproduce, and we have the capacity of a large bank that many of the small banks cannot reproduce. We intend to continue refining how we deliver our banking services so that we will maintain that community bank feel despite how large we might get. We try to do things that will reach the customers in their own environment. Every month we have what we call Business Blitzes where we empty the headquarters' offices to team up with all of the head folks at the branch level to go out and talk to our customers and potential customers on their own turf. We try to make them aware of who we are, how we can serve them, and how they can get that community bank feel. We also try to demonstrate what we can do better than what they may be receiving now. What we are finding is that some of the larger banks may deliver certain services, but they only do it for their larger customers. The smaller banks may not be able to deliver the services as effectively as we believe we can. With our approach, we get to know our clients and our potential clients and are able to respond to their needs on a one-on-one basis as opposed to a mass-marketing program.

CEOCFO: What is your capital position and deposit growth?

Mr. Dolan: We raised capital in August of this year. We feel that the regulatory environment is going to require banks to in-

crease their level of capital, so we wanted to be proactive and be on offense. We decided to go out and raise that capital and I think that our current capital levels allow us to focus on significant marketplace opportunities. There are some disruptions in our market because of some larger banks acquisitions, and there are customers feeling a little bit unsettled because they were intending to bank with Bank-A, but instead, now they are forced to deal with Bank-B. So we are coming to the table with a banking alternative that is friendly and able to be responsive to their needs. The results have been good. Our deposit growth has been greater than the overall market, such as in the Pittsburgh market where we have had a particular focus in the last few years. The market grew last year at 4.75%, whereas our deposits grew by 8%. And we did it by developing relationships and without trying to 'buy' those deposits with high cost-ing CD rates.

CEOCFO: Would you tell us about the economic environment in the areas you have your branches?

We have a relatively clean balance sheet to help us grow going forward as we come out of this tough economic environment. I think the other important component of getting the challenges behind us is putting the right people in the right seats to be able to execute on our strategy. Over the past three years, we have brought a lot of new talent into our organization – professional, well-qualified people in positions throughout all levels of the organization. This has helped us successfully execute our strategy. We are focused on delivering locally as a responsible community bank. - John J. Dolan

Mr. Dolan: That is an important topic today. Pittsburgh, which is in our western Pennsylvania area, had not seen booms in the past; therefore, we also have not seen the bust that many other areas have seen. That doesn't mean that we haven't had some challenges, because the market has had some challenges. Our unemployment is higher than it normally is, but it is well below the state average and the national average. It used to be that the Pittsburgh market was heavy into the steel industry, but today our market has diversified into healthcare, higher education, and energy. I think that has stabilized the market somewhat and, therefore, we haven't been hurt as much by the economic environment that other parts of the country have experienced. There is also a potential in the market for substantial growth because of the Marcellus Shale natural gas deposits. It is too early to tell right now, but the Marcellus Shale depos-

its are considered one of the largest natural gas deposits in the world. It is the largest in the United States; and is more than four times the size of the next largest natural gas find, which is the Barnett Shale around Dallas, Texas. It is just starting in its development stage right now, but there are signs that it could be a real economic boom and change the demographics of western Pennsylvania for the next fifty years or more.

CEOCFO: How did you survive the banking crisis of the last two years?

Mr. Dolan: We did have a few credit challenges over the last two years. There were a small number of large loans that were primarily out-of-market, and some construction loans, that were very painful to us. However, in-market loans, with only a couple of exceptions, performed very well; again that was because of the stability of the economy in our region. We believe we have the worst of our credit issues behind us, and we have taken steps to get our arms around them to ensure that we know what caused our challenges and that we don't have additional issues.

In addition, we have taken steps to keep it from happening again, and part of that is by hiring additional talent in the credit function. Another step we took is improving our credit infrastructure – both in people and in process – to make sure that we don't have that kind of thing happen again.

CEOCFO: Did you get involved with TARP?

Mr. Dolan: We did not take TARP back in 2008 when the program was announced. Instead, we decided to raise capital back then and at the time, it surprised some folks that we raised capital instead of taking the TARP. Looking back, I am thankful that we didn't participate in TARP and I think a lot of our western Pennsylvania customers also appreciated that.

CEOCFO: It sounds like you have done well and come out of the financial crisis in a stable position; what is the financial position of First Commonwealth today?

Mr. Dolan: The economic environment that we went through forced us to look at all parts of our business and we have largely restructured our balance sheet. As I mentioned before, we did shore up our capital position, but we also reevaluated our credit portfolio, in particular our commercial loan portfolio. We have successfully reduced our short-term debt by almost a billion dollars in the last twelve

months and that has really improved our liquidity position. We have cleaned up some credit issues in our investment portfolio. We have a relatively clean balance sheet to help us grow going forward as we come out of this tough economic environment. I think the other important component of getting the challenges behind us is putting the right people in the right seats to be able to execute on our strategy. Over the past three years, we have brought a lot of new talent into our organization – professional, well-qualified people in positions throughout all levels of the organization. This has helped us successfully execute our strategy. We are focused on delivering locally as a responsible community bank. We will change the way we deliver services, improve our efficiencies and re-think how we use technology. We need to change our processes to be able to do that. If you don't have the right people in place, it is hard to make that change.

CEOCFO: Do you see yourselves adding products or services such as remote deposit capture, or are you set with the mix of product you have for now?

Mr. Dolan: I believe that we have a good product mix. But we can continue to improve how we deliver the product. This year alone, we enhanced our cash management products for the small business owner. We upgraded it so we could compete, toe-to-toe, with the largest institutions in our market in delivering cash management products that would help businesses accelerate their receivables and manage their payables to maximize their cash flows. We had a good product before, but we have a very competitive product now. So we will continue looking at product sets like that, but instead of just getting new products, we will look to enhance how current products are delivered. We will continue looking at ways to support our community banking model, but yet still keep up with the times. We will be looking at things like mobile banking. Our customer demographics skew a little bit older, but we know for many clients, especially our younger ones, mobile banking is one of the ways they like to do business. And in order to be able to support them, we have to be proactive. We need to be there before they make their banking choice. We will explore ways to use social media to communicate more

effectively, and to better suit the needs of our communities.

CEOCFO: Going forward do you see organic growth or acquisitions; what will your branch growth look like over the next year or two?

Mr. Dolan: We will grow through a combination of continuing to add new branches, as well as growth through acquisitions. However, the regulatory environment has added cost and process requirements to the banking industry and will continue to do so. As a result, smaller banks are going to have a harder time trying to cope. In addition to the increased regulatory burden, there is going to be pressure on our sources of revenue, and additional complexities with accounting rules. There will also be increased capital rules. A lot of those smaller institutions with which we are now competing to deliver as a community bank are not going to be able to keep up. Therefore, I believe the industry will be changing over the next five years. I expect there will be some consolidation and we want to be among those helping them to consolidate. We will probably be looking to add some of the smaller banks that want to still deliver as a community bank and need to be a part of a larger organization, like First Commonwealth, to do so. The environment will change, and we will continue changing with the environment, but we will also be able to react and help others that may be unable to make that transition.

CEOCFO: Would you tell us about any community involvement; is your staff encouraged to participate in the community?

Mr. Dolan: We are a community-focused organization and everybody in the company is encouraged to reach out in their local communities. We recognize our employees' efforts with our Golden Tower Award and our Spirit of Community Service awards that we present once a month to those employees who are out there giving back. We pick those who are a great example of how we should be delivering locally as a responsible community bank by volunteering their time, talent, and treasure to organizations that make our communities stronger. We believe that stronger communities will help us remain a stronger institution. So, we recognize our employees with an award, but we write two checks: one goes to the

employee as part of their recognition, and the other check goes to their cause to help support the community's needs. Since we started the program in 2003, we have given over \$200 thousand to different individuals and organizations to support local community causes. We think being actively involved in our neighborhoods is one of the foundations of community banking.

CEOCFO: You are traded on NYSE; as a public company what do you do to attract investors?

Mr. Dolan: It is important that we communicate regularly with our shareholders and potential shareholders. Approximately half of our shareholders right now are individual shareholders located in our communities. The other half are institutional shareholders. I send a personal letter each quarter to the shareholders, and the retail shareholders appreciate that communication. I get a lot of feedback. In addition, we meet by phone or in person with the institutional investors, and we participate in analyst conferences. Another important shareholder constituency is our employees. We have an employee stock ownership plan that allows our employees to be owners, so they can align their interests with the shareholder. We communicate regularly with our employees and they become advocates when they are in their communities as well.

CEOCFO: In closing, would you address potential investors and why they should be considering First Commonwealth Financial?

Mr. Dolan: First, we have a lot of upside potential. We have had some challenges, but I believe the most significant obstacles are behind us. We have added key talent and I believe we have focused on a strategy that will generate results that exceed the average investment. Our intention is to stay focused on delivering locally as a responsible community bank and that focus will help us to generate a better return for our shareholders. The timing is right for investment in First Commonwealth as we see the fruits of the new talent and improved processes take hold.



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