

FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
November 08, 2018
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, 2018

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 Emerging growth company

Non-accelerated filer (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, was 99,423,275.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q
INDEX

	PAGE
PART I. <u>Financial Information</u>	
ITEM 1. <u>Financial Statements and Supplementary Data</u>	
<u>Included in Part I of this report:</u>	
<u>First Commonwealth Financial Corporation and Subsidiaries</u>	
<u>Condensed Consolidated Statements of Financial Condition (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	7
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	8
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	49
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	71
ITEM 4. <u>Controls and Procedures</u>	71
PART II. <u>Other Information</u>	
ITEM 1. <u>Legal Proceedings</u>	72
ITEM 1A. <u>Risk Factors</u>	72
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
ITEM 3. <u>Defaults Upon Senior Securities</u>	72
ITEM 4. <u>Mine Safety Disclosures</u>	72
ITEM 5. <u>Other Information</u>	72
ITEM 6. <u>Exhibits</u>	73
<u>Signatures</u>	74

Table of Contents

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	September 30, 2018	December 31, 2017
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$93,162	\$ 98,624
Interest-bearing bank deposits	3,022	8,668
Securities available for sale, at fair value	889,056	731,358
Securities held to maturity, at amortized cost (Fair value of \$373,933 and \$418,249 at September 30, 2018 and December 31, 2017, respectively)	389,621	422,096
Other investments	25,029	29,837
Loans held for sale	8,287	14,850
Loans:		
Portfolio loans	5,662,782	5,407,376
Allowance for credit losses	(50,746)	(48,298)
Net loans	5,612,036	5,359,078
Premises and equipment, net	80,426	81,339
Other real estate owned	3,874	2,765
Goodwill	274,202	255,353
Amortizing intangibles, net	13,826	15,007
Bank owned life insurance	214,322	212,099
Other assets	79,482	77,465
Total assets	\$7,686,345	\$ 7,308,539
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$1,451,284	\$ 1,416,771
Interest-bearing	4,443,859	4,163,934
Total deposits	5,895,143	5,580,705
Short-term borrowings	587,806	707,466
Subordinated debentures	170,249	72,167
Other long-term debt	7,706	8,161
Capital lease obligation	7,311	7,590
Total long-term debt	185,266	87,918
Other liabilities	45,199	44,323
Total liabilities	6,713,414	6,420,412
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; 113,914,902 shares issued at September 30, 2018 and December 31, 2017, and 100,361,434 and 97,456,478 shares outstanding at September 30, 2018 and December 31, 2017, respectively	113,915	113,915
Additional paid-in capital	492,262	470,123
Retained earnings	493,392	437,416

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Accumulated other comprehensive loss, net	(20,657)	(6,173)
Treasury stock (13,553,468 and 16,458,424 shares at September 30, 2018 and December 31, 2017, respectively)	(105,981)	(127,154)
Total shareholders' equity	972,931	888,127
Total liabilities and shareholders' equity	\$7,686,345	\$7,308,539

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

3

Table of Contents

ITEM 1. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	\$66,105	\$57,335	\$188,529	\$160,548
Interest and dividends on investments:				
Taxable interest	7,899	7,219	23,031	21,577
Interest exempt from federal income taxes	410	410	1,231	1,212
Dividends	420	417	1,412	1,276
Interest on bank deposits	39	30	109	97
Total interest income	74,873	65,411	214,312	184,710
Interest Expense				
Interest on deposits	6,006	2,491	14,639	6,511
Interest on short-term borrowings	2,603	2,427	7,387	6,373
Interest on subordinated debentures	2,302	772	4,664	2,215
Interest on other long-term debt	76	81	228	245
Interest on lease obligations	73	77	221	156
Total interest expense	11,060	5,848	27,139	15,500
Net Interest Income	63,813	59,563	187,173	169,210
Provision for credit losses	2,961	1,214	11,032	2,834
Net Interest Income after Provision for Credit Losses	60,852	58,349	176,141	166,376
Noninterest Income				
Net securities gains	—	92	8,102	695
Trust income	2,206	2,147	6,014	5,275
Service charges on deposit accounts	4,589	4,803	13,418	13,858
Insurance and retail brokerage commissions	1,872	2,128	5,560	6,652
Income from bank owned life insurance	1,579	1,472	5,241	4,213
Gain on sale of mortgage loans	1,542	1,418	4,267	3,710
Gain on sale of other loans and assets	643	503	3,548	1,267
Card-related interchange income	5,044	4,780	14,929	13,873
Derivatives mark to market	—	(14	) 789	(49
Swap fee income	528	217	1,115	458
Other income	1,754	2,244	5,125	5,674
Total noninterest income	19,757	19,790	68,108	55,626
Noninterest Expense				
Salaries and employee benefits	26,553	26,169	77,580	74,933
Net occupancy expense	4,341	3,715	12,932	11,597
Furniture and equipment expense	3,424	3,342	10,611	9,753
Data processing expense	2,853	2,229	7,764	6,659
Advertising and promotion expense	1,200	941	3,185	2,735
Pennsylvania shares tax expense	1,248	1,093	3,398	3,070
Intangible amortization	817	844	2,430	2,262

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Collection and repossession expense	630	402	2,060	1,342
Other professional fees and services	962	1,300	3,000	3,355
FDIC insurance	217	696	1,590	2,466
Loss on sale or write-down of assets	181	167	875	1,486
Litigation and operational losses	435	598	811	1,107
Merger and acquisition related	24	(69	) 1,634	10,412
Other operating expenses	6,645	5,934	17,662	17,212
Total noninterest expense	49,530	47,361	145,532	148,389
Income Before Income Taxes	31,079	30,778	98,717	73,613
Income tax provision	5,930	9,495	18,217	22,429
Net Income	\$25,149	\$ 21,283	\$80,500	\$ 51,184
Average Shares Outstanding	100,226,077	102,816	98,998,497	94,536,472
Average Shares Outstanding Assuming Dilution	100,490,807	102,457,470	99,197,568	94,578,490
Per Share Data:				
Basic Earnings per Share	\$0.25	\$ 0.22	\$0.81	\$ 0.54
Diluted Earnings per Share	\$0.25	\$ 0.22	\$0.81	\$ 0.54
Cash Dividends Declared per Common Share	\$0.09	\$ 0.08	\$0.26	\$ 0.24

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

4

Table of Contents

ITEM 1. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(dollars in thousands)			
Net Income	\$25,149	\$21,283	\$80,500	\$51,184
Other comprehensive (loss) income, before tax benefit (expense):				
Unrealized holding (losses) gains on securities arising during the period	(5,382)	1,690	(8,704)	5,935
Less: reclassification adjustment for gains on securities included in net income	—	(92)	(8,102)	(695)
Unrealized holding gains (losses) on derivatives arising during the period	198	(49)	165	(631)
Less: reclassification adjustment for losses on derivatives included in net income	—	20	10	93
Total other comprehensive (loss) income, before tax benefit (expense)	(5,184)	1,569	(16,631)	4,702
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,088	(549)	3,491	(1,646)
Total other comprehensive (loss) income	(4,096)	1,020	(13,140)	3,056
Comprehensive Income	\$21,053	\$22,303	\$67,360	\$54,240

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

Table of Contents

ITEM 1. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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	Total Shareholders' Equity
(dollars in thousands, except share and per share data)							
Balance at December 31, 2017	97,456,478	\$ 113,915	\$ 470,123	\$ 437,416	\$ (6,173)	\$(127,154)	\$ 888,127
Cumulative effect of adoption of ASU 2018-02				1,344	(1,344)		—
January 1, 2018	97,456,478	113,915	470,123	438,760	(7,517)	(127,154)	888,127
Net income				80,500			80,500
Other comprehensive loss					(13,140)		(13,140)
Cash dividends declared (\$0.26 per share)				(25,868)			(25,868)
Treasury stock acquired	(75,778)					(1,136)	(1,136)
Treasury stock reissued	2,908,234		21,579	—		22,447	44,026
Restricted stock	72,500	—	560	—		(138)	422
Balance at September 30, 2018	100,361,434	\$ 113,915	\$ 492,262	\$ 493,392	\$ (20,657)	\$(105,981)	\$ 972,931
	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
(dollars in thousands, except share and per share data)							
Balance at December 31, 2016	89,007,077	\$ 105,563	\$ 366,426	\$ 412,764	\$ (7,027)	\$(127,797)	\$ 749,929
Net income				51,184			51,184
Other comprehensive income					3,056		3,056
Cash dividends declared (\$0.24 per share)				(22,717)			(22,717)
Treasury stock acquired	(85,160)					(1,187)	(1,187)
Treasury stock reissued	181,211		1,170	—		1,387	2,557
Restricted stock	21,000	—	138	—		600	738
Common stock issuance	8,351,447	8,352	102,389				110,741
Balance at September 30, 2017	97,475,575	\$ 113,915	\$ 470,123	\$ 441,231	\$ (3,971)	\$(126,997)	\$ 894,301

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

Table of Contents

ITEM 1. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine Months Ended September 30, 2018 2017	
	(dollars in thousands)	
Operating Activities		
Net income	\$80,500	\$51,184
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	11,032	2,834
Deferred tax expense	2,969	3,411
Depreciation and amortization	5,620	6,711
Net gains on securities and other assets	(15,816)	(3,821)
Net amortization of premiums and discounts on securities	2,343	2,685
Income from increase in cash surrender value of bank owned life insurance	(4,364)	(4,213)
Increase in interest receivable	(2,483)	(588)
Mortgage loans originated for sale	(129,552)	(116,699)
Proceeds from sale of mortgage loans	139,685	114,819
Increase in interest payable	1,672	678
(Decrease) increase in income taxes payable	(3,412)	3,288
Distribution from unconsolidated subsidiary	9,000	—
Other-net	(3,655)	2,963
Net cash provided by operating activities	93,539	63,252
Investing Activities		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	37,007	36,620
Purchases	(5,506)	(101,372)
Transactions with securities available for sale:		
Proceeds from sales	15,939	143,660
Proceeds from maturities and redemptions	111,800	100,620
Purchases	(292,249)	(150,892)
Purchases of FHLB stock	(38,947)	(35,346)
Proceeds from the redemption of FHLB stock	43,754	42,791
Proceeds from bank owned life insurance	2,140	—
Proceeds from sale of loans	32,745	9,986
Proceeds from sale of other assets	2,486	3,835
Acquisition, net of cash acquired	705	3,188
Net increase in loans	(109,060)	(132,079)
Purchases of premises and equipment and other assets	(6,862)	(8,960)
Net cash used in investing activities	(206,048)	(87,949)
Financing Activities		
Net increase in federal funds purchased	6,500	—
Net decrease in other short-term borrowings	(126,160)	(62,118)
Net increase in deposits	173,553	123,455
Repayments of other long-term debt	(23,443)	(440)

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Repayments of capital lease obligation	(279)	(173)
Proceeds from issuance of other long-term debt	98,026	—
Dividends paid	(25,868)	(22,717)
Proceeds from reissuance of treasury stock	208	228
Purchase of treasury stock	(1,136)	(1,187)
Net cash provided by financing activities	101,401	37,048
Net (decrease) increase in cash and cash equivalents	(11,108)	12,351
Cash and cash equivalents at January 1	107,292	115,677
Cash and cash equivalents at September 30	\$96,184	\$128,028

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

7

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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 the "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, comprehensive income, 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, 2018 are not necessarily indicative of the results that may be expected for the full year of 2018. These interim financial statements should be read in conjunction with First Commonwealth's 2017 Annual Report on Form 10-K.

Adoption of New Accounting Standards

On January 1, 2018, First Commonwealth adopted ASU 2014-09, "Revenue from Contracts with Customers" ("ASC 606") and all subsequent amendments to the ASU, which creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain(loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include trust income, service charges on deposits, insurance and retail brokerage commissions, interchange fees and gain(loss) on other real estate owned ("OREO"). Refer to Note 15, "Revenue Recognition" for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606. The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a significant change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

On January 1, 2018, First Commonwealth elected to adopt ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." As part of this adoption, First Commonwealth has elected to reclassify the income tax effects resulting from tax reform from accumulated other comprehensive income to retained earnings on a portfolio basis. ASU 2018-02 provides for the reclassification of the stranded tax effects resulting from the Tax Cuts and Jobs Act. As of January 1, 2018, First Commonwealth reclassified \$1.3 million from accumulated other comprehensive income to retained earnings in relation to the stranded tax effect which included accumulated other comprehensive income recognized on available-for-sale investment securities, interest rate swaps and other post-retirement benefits. This reclassification is shown as an adjustment to the beginning of the year balances and can be seen in the Condensed Consolidated Statements of Changes in Shareholders' Equity.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and when that assessment indicates that impairment exists, requiring the entity to measure the investment

at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with this ASU, and as reflected in Note 11, "Fair Values of Assets and Liabilities," the Company measured the fair value of its loan portfolio as of September 30, 2018 using an exit price notion.

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 Acquisition

On May 1, 2018, the Company completed its acquisition of Garfield Acquisition Corporation ("Garfield") and its banking subsidiary, Foundation Bank, for consideration of \$17.4 million in cash and 2.7 million shares of the Company's common stock. Through the acquisition, the Company obtained five full-service banking offices which are operating under the First Commonwealth name. This acquisition expands the Company's presence into the Cincinnati, Ohio market and added \$184.5 million in loans and \$141.3 million in deposits to the Company's balance sheet.

The table below summarizes the net assets acquired (at fair value) and consideration transferred in connection with the Garfield acquisition (dollars in thousands):

Consideration Paid

Cash paid to shareholders	\$ 17,400	
Shares issued to shareholders (2,745,098 shares)	41,561	
Total consideration paid		\$ 58,961

Fair Value of Assets Acquired

Cash and cash equivalents	18,105
FHLB Stock	3,261
Loans	184,506
Premises and other equipment	409
Intangible assets	1,248
Other assets	1,747
Total assets acquired	209,276

Fair Value of Liabilities Assumed

Deposits	141,281
Federal Home Loan Bank borrowings	22,988
Other liabilities	5,068
Total liabilities assumed	169,337

Total Fair Value of Identifiable Net Assets	39,939
---	--------

Goodwill	\$ 19,022
----------	-----------

The goodwill of \$19.0 million arising from the acquisition represents the value of synergies and economies of scale expected from combining the operations of the Company with Garfield Acquisition Corporation.

The Company determined that this acquisition constitutes a business combination as defined in FASB ASC Topic 805, "Business Combinations." Accordingly, as of the date of the acquisition, the Company recorded the assets acquired and liabilities assumed at fair value. The Company determined fair values in accordance with the guidance provided in FASB ASC Topic 820, "Fair Value Measurements and Disclosures." Acquired loans were recorded at fair value with no

carryover of the related allowance for loan losses. Fair value is established by discounting the expected future cash flows with a market discount

9

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rate for like maturities and risk instruments. At the date of acquisition, none of the loans were accounted for under the guidance of ASC Topic 310-30, "Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality." The \$184.5 million fair value of acquired loans is the result of \$183.7 million in net loans acquired from Garfield, the recognition of a net combined yield and credit mark adjustment of \$4.3 million and the \$5.1 million reversal of Garfield's allowance as well as prior fair value marks recorded by Garfield.

The fair value of the 2,745,098 common shares issued was determined based on the market price of the Company's common shares on the acquisition date.

Costs related to the acquisition totaled \$1.6 million. These amounts were expensed as incurred and are recorded as a merger and acquisition related expense in the Condensed Consolidated Statements of Income.

As a result of the full integration of the operations of Garfield, it is not practicable to determine revenue or net income included in the Company's operating results relating to Garfield since the date of acquisition as Garfield's results cannot be separately identified.

Note 3 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 and reclassification adjustments related to losses on derivatives are included in the "Other operating expenses" line in the Condensed Consolidated Statements of Income.

	For the Nine Months Ended September 30,					
	2018			2017		
	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	\$(8,704)	\$ 1,828	\$(6,876)	\$5,935	\$(2,077)	\$3,858
Reclassification adjustment for gains on securities included in net income	(8,102)	1,701	(6,401)	(695)	243	(452)
Total unrealized (losses) gains on securities	(16,806)	3,529	(13,277)	5,240	(1,834)	3,406
Unrealized gains (losses) on derivatives:						
Unrealized holding gains (losses) on derivatives arising during the period	165	(35)	130	(631)	221	(410)
Reclassification adjustment for losses on derivatives included in net income	10	(3)	7	93	(33)	60
Total unrealized gains (losses) on derivatives	175	(38)	137	(538)	188	(350)
Total other comprehensive (loss) income	\$(16,631)	\$ 3,491	\$(13,140)	\$4,702	\$(1,646)	\$3,056

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three Months Ended September 30,					
	2018			2017		
	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	\$ (5,382)	\$ 1,130	\$ (4,252)	\$ 1,690	\$ (591)	\$ 1,099
Reclassification adjustment for gains on securities included in net income	—	—	—	(92)	32	(60)
Total unrealized (losses) gains on securities	(5,382)	1,130	(4,252)	1,598	(559)	1,039
Unrealized gains (losses) on derivatives:						
Unrealized holding gains (losses) on derivatives arising during the period	198	(42)	156	(49)	17	(32)
Reclassification adjustment for losses on derivatives included in net income	—	—	—	20	(7)	13
Total unrealized gains (losses) on derivatives	198	(42)	156	(29)	10	(19)
Total other comprehensive (loss) income	\$ (5,184)	\$ 1,088	\$ (4,096)	\$ 1,569	\$ (549)	\$ 1,020

The following table details the change in components of OCI for the nine months ended September 30:

	2018			2017				
	Securities Available for Sale	Post-Retirement Obligation	Derivatives Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Securities Available for Sale	Post-Retirement Obligation	Derivatives Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)
	(dollars in thousands)							
Balance at December 31	\$ (6,166)	\$ 299	\$ (306)	\$ (6,173)	\$ (7,455)	\$ 225	\$ 203	\$ (7,027)
Cumulative effect of adoption of ASU 2018-02	(1,344)	—	—	(1,344)	—	—	—	—
Balance at January 1	(7,510)	299	(306)	(7,517)	(7,455)	225	203	(7,027)
Other comprehensive (loss) income before reclassification adjustment	(6,876)	—	130	(6,746)	3,858	—	(410)	3,448
Amounts reclassified from accumulated other comprehensive (loss) income	(6,401)	—	7	(6,394)	(452)	—	60	(392)
Net other comprehensive (loss) income during the period	(13,277)	—	137	(13,140)	3,406	—	(350)	3,056
Balance at September 30	\$ (20,787)	\$ 299	\$ (169)	\$ (20,657)	\$ (4,049)	\$ 225	\$ (147)	\$ (3,971)

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the period for interest and income taxes, as well as detail on non-cash investing and financing activities for the nine months ended September 30:

	2018	2017
	(dollars in thousands)	
Cash paid during the period for:		
Interest	\$25,780	\$14,995
Income taxes	18,750	17,394
Non-cash investing and financing activities:		
Loans transferred to other real estate owned and repossessed assets	3,346	2,154
Loans transferred from held to maturity to held for sale	29,765	13,292
Gross (decrease) increase in market value adjustment to securities available for sale	(16,806)	5,240
Gross increase (decrease) in market value adjustment to derivatives	175	(538)
Noncash treasury stock reissuance	2,257	2,258
Net assets acquired through acquisition	21,834	36,926
Proceeds from death benefit on bank-owned life insurance not received	—	897

Note 5 Earnings per Share

The following table summarizes the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average common shares issued	113,914,902	113,914,902	113,914,902	111,100,495
Average treasury stock shares	(13,550,710)	(16,436,228)	(14,783,078)	(16,465,984)
Average deferred compensation shares	(37,411)	—	(37,411)	—
Average unearned nonvested shares	(100,134)	(75,858)	(95,916)	(98,039)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	100,226,647	97,402,816	98,998,497	94,536,472
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	226,754	54,654	161,660	42,018
Additional common stock equivalents (deferred compensation) used to calculate diluted earnings per share	37,411	—	37,411	—
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	100,490,812	97,457,470	99,197,568	94,578,490

The following table shows the number of shares and the price per share related to common stock equivalents that were not included in the computation of diluted earnings per share for the nine months ended September 30 because to do so would have been antidilutive.

	2018			2017		
	Shares	Price Range		Shares	Price Range	
	From	To	From	To	From	To
Restricted Stock	66,332	\$8.84	\$14.49	22,802	\$8.55	\$13.96
Restricted Stock Units	—	\$—	\$—	22,750	\$15.09	\$15.09

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Commitments and Contingent Liabilities

Commitments and Letters of Credit

Standby letters of credit and commercial letters of credit are conditional commitments issued by First Commonwealth to guarantee the performance of a customer to a third party. The contract or notional amount of these instruments reflects the maximum amount of future payments that First Commonwealth could be required to pay under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In addition, many of these commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.

The following table identifies the notional amount of those instruments at:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$1,846,575	\$1,840,180
Financial standby letters of credit	18,486	17,946
Performance standby letters of credit	21,460	20,472
Commercial letters of credit	927	1,149

The notional amounts outstanding as of September 30, 2018 include amounts issued in 2018 of \$1.1 million in financial standby letters of credit and \$0.7 million in performance standby letters of credit. There were no commercial letters of credit issued in 2018. A liability of \$0.2 million has been recorded as of September 30, 2018 and December 31, 2017, which represents the estimated fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued. Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. Management's evaluation of the credit risk related to these commitments resulted in the recording of a liability of \$5.2 million as of both September 30, 2018 and December 31, 2017. This liability is reflected in "Other liabilities" in the Condensed Consolidated Statements of Financial Condition. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

Legal Proceedings

First Commonwealth and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. As of September 30, 2018, management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability arising out of litigation pending or threatened against First Commonwealth or its subsidiaries will be material to First Commonwealth's consolidated financial position. On at least a quarterly basis, First Commonwealth assesses its liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that First Commonwealth will incur losses and the amounts of the losses can be reasonably estimated, First Commonwealth records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability (if any), is between \$0 and \$1 million. Although First Commonwealth does not believe that the outcome of pending litigation will be material to First Commonwealth's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations and cash flows for a particular reporting period in the future.

First Commonwealth Financial Corporation and First Commonwealth Bank were named defendants in an action commenced August 27, 2015 by eight named plaintiffs that filed in the Court of Common Pleas of Jefferson County, Pennsylvania. The plaintiffs alleged that the Bank repossessed motor vehicles, sold the vehicles and sought to collect deficiency balances in a manner that did not comply with the notice requirements of the Pennsylvania Uniform Commercial Code (UCC), charged inappropriate costs and fees, including storage costs for dates that a repossessed vehicle was not in storage, and wrongly filed forms with the Department of Motor Vehicles asserting that the Bank had complied with applicable laws relating to the repossession of the vehicles. First Commonwealth Financial Corporation, First Commonwealth Bank, the plaintiffs, the plaintiffs' counsel and First Commonwealth's liability insurer entered into a Class Action Settlement Agreement and Release in

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which, among other things, First Commonwealth and its insurer agreed to pay certain amounts into a settlement fund to be distributed among the class members and class counsel, First Commonwealth agreed to satisfy the remaining deficiency balances of the class members and request that credit reporting agencies delete the tradeline relating to the repossession from each class member's credit report, and the class members released all claims against First Commonwealth and its insurer. At a hearing on July 23, 2018, the Court granted final approval of the settlement and dismissed all claims against First Commonwealth. In August 2018, this settlement was completed. The cost of the settlement to First Commonwealth was recorded as a liability in the second quarter of 2016.

Note 7 Investment Securities

Securities Available for Sale

Below is an analysis of the amortized cost and estimated fair values of securities available for sale at:

	September 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	\$9,276	\$ 484	\$(132)	\$9,628	\$10,556	\$ 789	\$(7)	\$11,338
Mortgage-Backed Securities – Commercial	170,086	—	(2,675)	167,411	24,611	—	(462)	24,149
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	685,721	987	(25,079)	661,629	632,422	2,622	(9,489)	625,555
Other Government-Sponsored Enterprises	100	—	—	100	1,098	—	(1)	1,097
Obligations of States and Political Subdivisions	27,590	56	(129)	27,517	27,083	327	—	27,410
Corporate Securities	20,907	473	(279)	21,101	15,907	590	(4)	16,493
Pooled Trust Preferred Collateralized Debt Obligations	—	—	—	—	27,499	526	(4,379)	23,646
Total Debt Securities	913,680	2,000	(28,294)	887,386	739,176	4,854	(14,342)	729,688
Equities	1,670	—	—	1,670	1,670	—	—	1,670
Total Securities Available for Sale	\$915,350	\$ 2,000	\$(28,294)	\$889,056	\$740,846	\$ 4,854	\$(14,342)	\$731,358

Mortgage-backed securities include mortgage-backed obligations of U.S. Government agencies and obligations of U.S. Government-sponsored enterprises. These obligations have contractual maturities ranging from less than one year to approximately 30 years with lower anticipated lives to maturity due to prepayments. All mortgage-backed securities contain a certain amount of risk related to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact upon prepayment speeds; therefore, First Commonwealth uses computer simulation models to test the average life and yield volatility of all mortgage-backed securities under various interest rate scenarios to monitor the potential impact on earnings and interest rate risk positions.

Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties. Other fixed income securities within the portfolio also contain prepayment risk.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and estimated fair value of debt securities available for sale at September 30, 2018, by contractual maturity, are shown below.

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	\$4,099	\$4,089
Due after 1 but within 5 years	15,730	15,464
Due after 5 but within 10 years	26,342	26,269
Due after 10 years	2,426	2,896
	48,597	48,718
Mortgage-Backed Securities (a)	865,083	838,668
Total Debt Securities	\$913,680	\$887,386

Mortgage-Backed Securities include an amortized cost of \$179.4 million and a fair value of \$177.0 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$685.7 million and a fair value of \$661.6 million for Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac.

Proceeds from sales, gross gains (losses) realized on sales, maturities and other-than-temporary impairment charges related to securities available for sale were as follows for the nine months ended September 30:

	2018	2017
	(dollars in thousands)	
Proceeds from sales	\$ 15,939	\$ 143,660
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	\$4,719	\$ 359
Gross losses	—	(316)
	4,719	43
Maturities and impairment		
Gross gains	3,383	712
Gross losses	—	(60)
	3,383	652
Net gains and impairment	\$ 8,102	\$ 695

Gross gains from sales transactions of \$4.7 million were recognized in 2018 as a result of the sale of the remaining pooled trust preferred security portfolio. Gross gains from maturities and impairment of \$3.4 million were recognized in 2018 as a result of successful auction calls on PreSTL XIV and PreSTL IX, two of our pooled trust preferred securities. Gross gains of \$0.7 million were recognized in 2017 due to the early redemption of another of our trust preferred securities, PreSTL VII.

Securities available for sale with an estimated fair value of \$680.9 million and \$569.0 million were pledged as of September 30, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or permitted by law.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities Held to Maturity

Below is an analysis of the amortized cost and fair values of debt securities held to maturity at:

	September 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	\$3,663	\$ —	\$(156)	\$3,507	\$3,925	\$ —	\$(14)	\$3,911
Mortgage-Backed Securities-Commercial	55,726	—	(2,742)	52,984	58,249	—	(1,394)	56,855
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	273,972	—	(11,468)	262,504	305,126	10	(2,552)	302,584
Mortgage-Backed Securities – Commercial	13,413	—	(427)	12,986	14,056	—	(71)	13,985
Obligations of States and Political Subdivisions	42,447	5	(895)	41,557	40,540	335	(161)	40,714
Debt Securities Issued by Foreign Governments	400	—	(5)	395	200	—	—	200
Total Securities Held to Maturity	\$389,621	\$ 5	\$(15,693)	\$373,933	\$422,096	\$ 345	\$(4,192)	\$418,249

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
(dollars in thousands)		
Due within 1 year	\$85	\$85
Due after 1 but within 5 years	3,814	3,778
Due after 5 but within 10 years	37,329	36,491
Due after 10 years	1,619	1,598
	42,847	41,952
Mortgage-Backed Securities (a)	346,774	331,981
Total Debt Securities	\$389,621	\$373,933

Mortgage-Backed Securities include an amortized cost of \$59.4 million and a fair value of \$56.5 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$287.4 million and a fair value of \$275.5 million for Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac.

Securities held to maturity with an amortized cost of \$298.9 million and \$338.3 million were pledged as of September 30, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or

permitted by law.

16

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8 Impairment of Investment Securities

Securities Available for Sale and Held to Maturity

As required by FASB ASC Topic 320, "Investments – Debt and Equity Securities," credit-related other-than-temporary impairment on debt securities is recognized in earnings, while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in OCI. During the nine months ended September 30, 2018 and 2017, no other-than-temporary impairment charges were recognized.

First Commonwealth utilizes the specific identification method to determine the net gain or loss on debt securities and the average cost method to determine the net gain or loss on equity securities.

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and whether we are more likely than not to sell, or be required to sell, the security. We evaluate whether we are more likely than not to sell debt securities based upon our investment strategy for the particular type of security, our cash flow needs, liquidity position, capital adequacy, tax position and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by weakness in the U.S. economy or changes in real estate values.

The following table presents the gross unrealized losses and estimated fair values at September 30, 2018 for both available for sale and held to maturity securities by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities – Residential	\$7,267	\$(288)	\$—	\$—	\$7,267	\$(288)
Mortgage-Backed Securities – Commercial	144,211	(1,538)	76,183	(3,879)	220,394	(5,417)
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	399,505	(10,329)	489,431	(26,218)	888,936	(36,547)
Mortgage-Backed Securities – Commercial	12,986	(427)	—	—	12,986	(427)
Other Government-Sponsored Enterprises	—	—	100	—	100	—
Obligations of States and Political Subdivisions	44,422	(635)	5,781	(389)	50,203	(1,024)
Debt securities issued by foreign governments	395	(5)	—	—	395	(5)
Corporate Securities	18,702	(279)	—	—	18,702	(279)
Total Securities	\$627,488	\$(13,501)	\$571,495	\$(30,486)	\$1,198,983	\$(43,987)

At September 30, 2018, fixed income securities issued by U.S. Government-sponsored enterprises and U.S. Government agencies comprised 84% and 13%, respectively, of total unrealized losses due to changes in market interest rates. At September 30, 2018, there are 183 debt securities in an unrealized loss position.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the gross unrealized losses and estimated fair values at December 31, 2017 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities – Residential	\$5,584	\$(21)	\$—	\$—	\$5,584	\$(21)
Mortgage-Backed Securities - Commercial	48,322	(962)	32,683	(894)	81,005	(1,856)
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	351,222	(2,295)	400,984	(9,746)	752,206	(12,041)
Mortgage-Backed Securities – Commercial	13,985	(71)	—	—	13,985	(71)
Other Government-Sponsored Enterprises	997	(1)	99	—	1,096	(1)
Obligation of States and Political Subdivisions	7,144	(32)	3,653	(129)	10,797	(161)
Corporate Securities	3,993	(4)	—	—	3,993	(4)
Pooled Trust Preferred Collateralized Debt Obligations	—	—	19,120	(4,379)	19,120	(4,379)
Total Securities	\$431,247	\$(3,386)	\$456,539	\$(15,148)	\$887,786	\$(18,534)

As of September 30, 2018, our corporate securities had an amortized cost and an estimated fair value of \$20.9 million and \$21.1 million, respectively. As of December 31, 2017, our corporate securities had an amortized cost and estimated fair value of \$15.9 million and \$16.5 million, respectively. Corporate securities are comprised of debt for large regional banks. There were four corporate securities in an unrealized loss position as of September 30, 2018 and one corporate security in an unrealized loss position as of December 31, 2017. When unrealized losses exist on these investments, management reviews each of the issuer's asset quality, earnings trends and capital position, to determine whether issues in an unrealized loss position were other-than-temporarily impaired. All interest payments on the corporate securities are being made as contractually required.

During the first six months of 2018, all of our pooled trust preferred collateralized debt obligations were liquidated either through a successful auction call or sale. At December 31, 2017, the pooled trust preferred securities had an amortized cost and estimated fair value of \$27.5 million and \$23.6 million, respectively. Other-than-temporary impairment charges were recognized on the pooled trust preferred securities in 2008, 2009 and 2010. The following table provides a cumulative roll forward of credit losses recognized in earnings for the trust preferred securities:

	For the		
	Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	
	2017	2018	2017
Balance, beginning (a)	\$-16,610	\$12,208	\$17,056
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—	—
	—	—	—

Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized			
Increases in cash flows expected to be collected, recognized over the remaining life of the security (b)	—(219)	(223)	(665)
Reduction for debt securities sold during the period	—	(9,164)	—
Reduction for debt securities called during the period	—	(2,821)	—
Balance, ending	\$—\$16,391	\$—	\$16,391

(a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods.

(b) Represents the increase in cash flows recognized in interest income during the period.

During the nine-months ended September 30, 2018, there were no gains or losses recognized through earnings on equity securities. During the nine-months ended September 30, 2017, no other-than-temporary impairment charges were recorded on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of September 30, 2018 and 2017, there were no equity securities in an unrealized loss position.

Other Investments

As a member of the Federal Home Loan Bank ("FHLB"), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. The level of stock required to be held is dependent on the amount of First Commonwealth's mortgage-related assets and outstanding borrowings with the FHLB. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of September 30, 2018 and December 31, 2017, our FHLB stock totaled \$25.0 million and \$29.8 million, respectively, and is included in "Other investments" on the Condensed Consolidated Statements of Financial Condition.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First Commonwealth evaluates impairment quarterly and has concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities during the three and nine months ended September 30, 2018.

Note 9 Loans and Allowance for Credit Losses

The following table provides outstanding balances related to each of our loan types:

	September 30, 2018			December 31, 2017		
	Originated	Acquired	Total	Originated	Acquired	Total
	(dollars in thousands)					
Commercial, financial, agricultural and other	\$1,079,537	\$36,667	\$1,116,204	\$1,122,741	\$40,642	\$1,163,383
Real estate construction	291,645	6,750	298,395	242,905	5,963	248,868
Residential real estate	1,277,427	255,911	1,533,338	1,206,119	220,251	1,426,370
Commercial real estate	1,929,219	207,212	2,136,431	1,892,185	126,911	2,019,096
Loans to individuals	572,696	5,718	578,414	543,411	6,248	549,659
Total loans	\$5,150,524	\$512,258	\$5,662,782	\$5,007,361	\$400,015	\$5,407,376

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Quality Information

As part of the on-going monitoring of credit quality within the loan portfolio, the following credit worthiness categories are used in grading our loans:

Pass Acceptable levels of risk exist in the relationship. Includes all loans not classified as OAEM, substandard or doubtful.

Other Assets Especially Mentioned (OAEM) Potential weaknesses that deserve management's close attention. The potential weaknesses may result in deterioration of the repayment prospects or weaken the Company's credit position at some future date. The credit risk may be relatively minor, yet constitute an undesirable risk in light of the circumstances surrounding the specific credit. No loss of principal or interest is expected.

Substandard Well-defined weakness or a weakness that jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of deterioration of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard.

Doubtful Loans with the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable.

The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk. The Company's internal creditworthiness grading system provides a measurement of credit risk based primarily on an evaluation of the borrower's cash flow and collateral. Movement between these rating categories provides a predictive measure of credit losses and therefore assists in determining the appropriate level for the loan loss reserves. Category ratings are reviewed each quarter, at which time management analyzes the results, as well as other external statistics and factors related to loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

The following tables represent our credit risk profile by creditworthiness:

September 30, 2018

Commercial,

financial, Real estate Residential Commercial Loans to
agricultural construction real estate real estate individuals Total
and other

(dollars in thousands)

Originated loans

Pass	\$ 1,023,855	\$ 282,713	\$ 1,266,805	\$ 1,876,336	\$ 572,504	\$ 5,022,213
Non-Pass						
OAEM	40,624	8,932	1,135	32,825	—	83,516
Substandard	10,740	—	9,487	20,058	192	40,477
Doubtful	4,318	—	—	—	—	4,318
Total Non-Pass	55,682	8,932	10,622	52,883	192	128,311
Total	\$ 1,079,537	\$ 291,645	\$ 1,277,427	\$ 1,929,219	\$ 572,696	\$ 5,150,524

Acquired loans

Pass	\$ 30,328	\$ 6,104	\$ 252,769	\$ 204,074	\$ 5,703	\$ 498,978
Non-Pass						
OAEM	6,238	646	652	460	—	7,996
Substandard	101	—	2,490	2,678	15	5,284
Doubtful	—	—	—	—	—	—

Total Non-Pass	6,339	646	3,142	3,138	15	13,280
Total	\$36,667	\$ 6,750	\$255,911	\$207,212	\$ 5,718	\$512,258

20

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2017					
	Commercial,					
	financial,	Real estate	Residential	Commercial	Loans to	Total
	agricultural	construction	real estate	real estate	individuals	
	and other					
	(dollars in thousands)					
Originated loans						
Pass	\$ 1,061,147	\$ 242,905	\$ 1,194,352	\$ 1,855,253	\$ 543,175	\$ 4,896,832
Non-Pass						
OAEM	26,757	—	1,435	13,326	—	41,518
Substandard	30,431	—	10,332	23,606	236	64,605
Doubtful	4,406	—	—	—	—	4,406
Total Non-Pass	61,594	—	11,767	36,932	236	110,529
Total	\$ 1,122,741	\$ 242,905	\$ 1,206,119	\$ 1,892,185	\$ 543,411	\$ 5,007,361
Acquired loans						
Pass	\$ 34,573	\$ 5,963	\$ 217,824	\$ 121,536	\$ 6,231	\$ 386,127
Non-Pass						
OAEM	5,567	—	798	3,517	—	9,882
Substandard	502	—	1,629	1,858	17	4,006
Doubtful	—	—	—	—	—	—
Total Non-Pass	6,069	—	2,427	5,375	17	13,888
Total	\$ 40,642	\$ 5,963	\$ 220,251	\$ 126,911	\$ 6,248	\$ 400,015

Portfolio Risks

The credit quality of our loan portfolio can potentially represent significant risk to our earnings, capital and liquidity. First Commonwealth devotes substantial resources to managing this risk primarily through our credit administration department that develops and administers policies and procedures for underwriting, maintaining, monitoring and collecting loans. Credit administration is independent of our lending departments and oversight is provided by the credit committee of the First Commonwealth Board of Directors.

Criticized loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate to absorb losses inherent to the portfolio as of September 30, 2018. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Age Analysis of Past Due Loans by Segment

The following tables delineate the aging analysis of the recorded investments in past due loans as of September 30, 2018 and December 31, 2017. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

	September 30, 2018						
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing	Nonaccrual	Total past due and nonaccrual	Current	Total
	(dollars in thousands)						
Originated loans							
Commercial, financial, agricultural and other	\$ 340	\$ —	\$ 66	\$ 11,506	\$ 11,912	\$ 1,067,625	\$ 1,079,537
Real estate construction	—	—	—	—	—	291,645	291,645
Residential real estate	2,994	1,084	486	5,890	10,454	1,266,973	1,277,427
Commercial real estate	1,351	383	270	9,805	11,809	1,917,410	1,929,219
Loans to individuals	2,204	644	573	193	3,614	569,082	572,696
Total	\$ 6,889	\$ 2,111	\$ 1,395	\$ 27,394	\$ 37,789	\$ 5,112,735	\$ 5,150,524
Acquired loans							
Commercial, financial, agricultural and other	\$ —	\$ —	\$ 20	\$ 73	\$ 93	\$ 36,574	\$ 36,667
Real estate construction	1,126	—	—	—	1,126	5,624	6,750
Residential real estate	391	95	191	2,395	3,072	252,839	255,911
Commercial real estate	43	—	—	1,920	1,963	205,249	207,212
Loans to individuals	25	22	41	15	103	5,615	5,718
Total	\$ 1,585	\$ 117	\$ 252	\$ 4,403	\$ 6,357	\$ 505,901	\$ 512,258

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2017				Total past due and nonaccrual	Current	Total
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing	Nonaccrual			
(dollars in thousands)							
Originated loans							
Commercial, financial, agricultural and other	\$378	\$61	\$40	\$18,741	\$19,220	\$1,103,521	\$1,122,741
Real estate construction	199	—	—	—	199	242,706	242,905
Residential real estate	4,618	1,025	1,076	6,225	12,944	1,193,175	1,206,119
Commercial real estate	2,198	28	6	3,240	5,472	1,886,713	1,892,185
Loans to individuals	1,899	769	623	236	3,527	539,884	543,411
Total	\$9,292	\$1,883	\$1,745	\$28,442	\$41,362	\$4,965,999	\$5,007,361
Acquired loans							
Commercial, financial, agricultural and other	\$6	\$7	\$—	\$436	\$449	\$40,193	\$40,642
Real estate construction	—	—	—	—	—	5,963	5,963
Residential real estate	148	9	83	705	945	219,306	220,251
Commercial real estate	—	—	—	1,077	1,077	125,834	126,911
Loans to individuals	36	20	26	17	99	6,149	6,248
Total	\$190	\$36	\$109	\$2,235	\$2,570	\$397,445	\$400,015

Nonaccrual Loans

The previous tables summarize nonaccrual loans by loan segment. The Company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, when part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due.

Generally, loans 90 days or more past due are placed on nonaccrual status, except for consumer loans, which are placed on nonaccrual status at 150 days past due.

When a loan is placed on nonaccrual, the accrued unpaid interest receivable is reversed against interest income and all future payments received are applied as a reduction to the loan principal. Generally, the loan is returned to accrual status when (a) all delinquent interest and principal becomes current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer in doubt.

Impaired Loans

Management considers loans to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all loan categories. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole source for repayment of the loan is the operation or liquidation of collateral. When the loan is collateral dependent, the appraised value less estimated cost to sell is utilized. If management determines the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an allowance estimate or a charge-off to the allowance. Troubled debt restructured loans on accrual status are also considered to be impaired loans.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the

total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method.

At September 30, 2018 and December 31, 2017, there were no nonaccrual loans held for sale. During the nine months ended, September 30, 2018, a gain of \$1.2 million was recognized on the sale of an impaired commercial, financial, agricultural and

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other relationship. There were \$21 thousand in gains recognized in the same period in 2017 on the sale of an impaired commercial, financial, agricultural and other loan.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of September 30, 2018 and December 31, 2017. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated using month-end balances of the loans for the period reported and are included in the table below based on their period-end allowance position.

	September 30, 2018		December 31, 2017			
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(dollars in thousands)					
Originated loans:						
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$3,177	\$9,585		\$5,548	\$12,153	
Real estate construction	—	—		—	—	
Residential real estate	10,302	12,163		10,625	12,470	
Commercial real estate	4,951	7,559		5,155	5,489	
Loans to individuals	287	414		347	383	
Subtotal	18,717	29,721		21,675	30,495	
With an allowance recorded:						
Commercial, financial, agricultural and other	9,998	10,219	\$ 3,474	16,866	21,094	\$ 3,478
Real estate construction	—	—	—	—	—	—
Residential real estate	596	602	167	456	478	107
Commercial real estate	6,094	6,161	1,722	954	954	128
Loans to individuals	—	—	—	—	—	—
Subtotal	16,688	16,982	5,363	18,276	22,526	3,713
Total	\$35,405	\$46,703	\$ 5,363	\$39,951	\$53,021	\$ 3,713

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	September 30, 2018			December 31, 2017		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(dollars in thousands)					
Acquired loans						
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$73	\$ 73		\$436	\$ 449	
Real estate construction	—	—		—	—	
Residential real estate	2,436	3,006		666	965	
Commercial real estate	1,920	2,919		940	1,842	
Loans to individuals	15	17		17	17	
Subtotal	4,444	6,015		2,059	3,273	
With an allowance recorded:						
Commercial, financial, agricultural and other	—	—	\$ —	—	—	\$ —
Real estate construction	—	—	—	—	—	—
Residential real estate	—	—	—	93	122	4
Commercial real estate	—	—	—	137	150	29
Loans to individuals	—	—	—	—	—	—
Subtotal	—	—	—	230	272	33
Total	\$4,444	\$ 6,015	\$ —	—\$2,289	\$ 3,545	\$ 33

For the Nine Months Ended September 30,
2018

2017

	Originated Loans		Acquired Loans		Originated Loans		Acquired Loans	
	Average Interest recorded	interest recognized	Average Interest recorded	interest recognized	Average Interest recorded	interest recognized	Average Interest recorded	interest recognized
With no related allowance recorded:								
Commercial, financial, agricultural and other	\$17,838	\$ 576	\$261	\$ 10	\$11,627	\$ 142	\$48	\$ 1
Real estate construction	—	—	—	—	—	—	33	—
Residential real estate	10,639	191	1,779	3	11,417	245	487	—
Commercial real estate	7,632	146	1,558	—	6,439	522	2,076	—
Loans to individuals	322	6	16	—	350	16	2	—
Subtotal	36,431	919	3,614	13	29,833	925	2,646	1
With an allowance recorded:								
Commercial, financial, agricultural and other	5,979	16	—	—	8,984	77	316	—
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	532	11	—	—	266	—	68	—
Commercial real estate	1,787	3	—	—	354	14	159	—
Loans to individuals	—	—	—	—	—	—	—	—
Subtotal	8,298	30	—	—	9,604	91	543	—

Total	\$44,729	\$ 949	\$3,614	\$ 13	\$39,437	\$ 1,016	\$3,189	\$ 1
-------	----------	--------	---------	-------	----------	----------	---------	------

25

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three Months Ended September 30,							
	2018		2017		2018		2017	
	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans
	Average Interest	Average Interest	Average Interest	Average Interest	Average Interest	Average Interest	Average Interest	Average Interest
	recorded Income	recorded Income	recorded Income	recorded Income	recorded Income	recorded Income	recorded Income	recorded Income
	investment Recognized	investment Recognized	investment Recognized	investment Recognized	investment Recognized	investment Recognized	investment Recognized	investment Recognized
	(dollars in thousands)							
With no related allowance recorded:								
Commercial, financial, agricultural and other	\$5,697	\$ 8	\$73	\$ 10	\$7,106	\$ 62	\$72	\$ 1
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	10,627	59	2,541	2	11,217	82	653	—
Commercial real estate	6,810	59	1,955	—	5,928	452	3,078	—
Loans to individuals	320	2	16	—	366	5	6	—
Subtotal	23,454	128	4,585	12	24,617	601	3,809	1
With an allowance recorded:								
Commercial, financial, agricultural and other	10,298	4	—	—	8,510	32	786	—
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	565	2	—	—	377	—	95	—
Commercial real estate	4,342	1	—	—	315	4	154	—
Loans to individuals	—	—	—	—	—	—	—	—
Subtotal	15,205	7	—	—	9,202	36	1,035	—
Total	\$38,659	\$ 135	\$4,585	\$ 12	\$33,819	\$ 637	\$4,844	\$ 1

Unfunded commitments related to nonperforming loans were \$1.5 million at September 30, 2018 and \$2.4 million at December 31, 2017. After consideration of the requirements to draw and available collateral related to these commitments, a reserve of \$12 thousand and \$0.2 million was established for these off balance sheet exposures at September 30, 2018 and December 31, 2017, respectively.

Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources.

The following table provides detail as to the total troubled debt restructured loans and total commitments outstanding on troubled debt restructured loans:

	September 30, 2018	December 31, 2017
Troubled debt restructured loans		
Accrual status	\$8,052	\$ 11,563
Nonaccrual status	13,876	11,222
Total	\$21,928	\$ 22,785
Commitments		
Letters of credit	\$60	\$ 60
Unused lines of credit	895	54

Total	\$955	\$ 114
-------	-------	--------

26

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide detail, including specific reserves and reasons for modification, related to loans identified as troubled debt restructurings:

For the Nine Months Ended September 30, 2018

	Type of Modification				Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments			
	(dollars in thousands)						
Commercial, financial, agricultural and other	3	\$74	\$ —	\$ 8,250	\$ 8,324	\$ 7,393	\$ 2,811
Residential real estate	24	85	145	959	1,189	1,108	—
Commercial real estate	2	—	—	966	966	943	—
Loans to individuals	13	—	77	44	121	103	—
Total	42	\$159	\$ 222	\$ 10,219	\$ 10,600	\$ 9,547	\$ 2,811

For the Nine Months Ended September 30, 2017

	Type of Modification				Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments			
	(dollars in thousands)						
Commercial, financial, agricultural and other	6	\$6,768	\$1,786	\$ 47	\$ 8,601	\$ 6,307	\$ 669
Residential real estate	15	129	204	513	846	777	2
Commercial real estate	4	179	—	111	290	280	—
Loans to individuals	8	—	17	60	77	62	—
Total	33	\$7,076	\$2,007	\$ 731	\$ 9,814	\$ 7,426	\$ 671

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this note. Loans defined as modified due to a change in rate may include loans that were modified for a change in rate as well as a re-amortization of the principal and an extension of the maturity. For the nine months ended September 30, 2018 and 2017, \$0.2 million and \$0.3 million, respectively, of total rate modifications represent loans with modifications to the rate as well as payment as a result of re-amortization. For both 2018 and 2017 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide detail, including specific reserves and reasons for modification, related to loans identified as troubled debt restructurings:

For the Three Months Ended September 30, 2018

Type of Modification	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total	Post-	Specific Reserve
					Pre-Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment	
(dollars in thousands)							
Commercial, financial, agricultural and other	1	\$ 74	\$ —	\$ —	\$ 74	\$ 74	\$ —
Residential real estate	7	65	70	230	365	338	—
Loans to individuals	6	—	26	17	43	40	—
Total	14	\$ 139	\$ 96	\$ 247	\$ 482	\$ 452	\$ —

For the Three Months Ended, September 30, 2017

Type of Modification	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total	Post-	Specific Reserve
					Pre-Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment	
(dollars in thousands)							
Commercial, financial, agricultural and other	1	\$ —	\$ —	\$ 47	\$ 47	\$ 47	\$ —
Residential real estate	4	—	17	100	117	106	—
Commercial real estate	1	—	—	27	27	25	—
Loans to individuals	1	—	—	12	12	11	—
Total	7	\$ —	\$ 17	\$ 186	\$ 203	\$ 189	\$ —

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this note. Loans defined as modified due to a change in rate may include loans that were modified for a change in rate as well as a re-amortization of the principal and an extension of the maturity. For the three months ended September 30, 2018 and 2017, \$96 thousand and \$17 thousand, respectively, of total rate modifications represent loans with modifications to the rate as well as payment as a result of re-amortization. For both 2018 and 2017 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

A troubled debt restructuring is considered to be in default when a restructured loan is 90 days or more past due. The following table provides information related to loans that were restructured within the past twelve months and that were considered to be in default during the nine months ended September 30:

	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
(dollars in thousands)				
Commercial, financial, agricultural and other	1	\$ 272	—	\$ —
Residential real estate	1	\$ 49	1	\$ 9
Loans to individuals	1	8	1	2

Total 3 \$ 329 2 \$ 11

28

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides information related to loans that were restructured within the past twelve months and that were considered to be in default during the three months ended September 30:

	2018	2017		
	Number of	Number of		
	Contracts	Contracts		
	(dollars in thousands)	(dollars in thousands)		
Residential real estate	1 \$ 49	— \$ —		
Loans to individuals	1 \$ 8	1 \$ 2		
Total	2 \$ 57	1 \$ 2		

The following tables provide detail related to the allowance for credit losses:

For the Nine Months Ended September 30, 2018

Commercial,

financial, Real estate Residential Commercial Loans to
agricultural construction real estate real estate individuals Total
and other

(dollars in thousands)

Allowance for credit losses:

Originated loans:

Beginning balance	\$23,418	\$ 1,349	\$ 2,753	\$ 17,328	\$ 3,404	\$48,252
Charge-offs	(3,443)	—	(949)	(2,411)	(3,321)	(10,124)
Recoveries	671	93	222	123	460	1,569
Provision (credit)	1,343	150	1,584	4,623	3,274	10,974
Ending balance	21,989	1,592	3,610	19,663	3,817	50,671
Acquired loans:						
Beginning balance	11	—	6	29	—	46
Charge-offs	(93)	—	(57)	—	(15)	(165)
Recoveries	31	6	75	—	24	136
Provision (credit)	71	(6)	23	(21)	(9)	58
Ending balance	20	—	47	8	—	75
Total ending balance	\$22,009	\$ 1,592	\$ 3,657	\$ 19,671	\$ 3,817	\$50,746
Ending balance: individually evaluated for impairment	\$3,474	\$ —	\$ 167	\$ 1,722	\$ —	\$5,363
Ending balance: collectively evaluated for impairment	18,535	1,592	3,490	17,949	3,817	45,383
Loans:						
Ending balance	1,116,204	298,395	1,533,338	2,136,431	578,414	5,662,782
Ending balance: individually evaluated for impairment	12,864	—	4,522	12,012	—	29,398
Ending balance: collectively evaluated for impairment	1,103,340	298,395	1,528,816	2,124,419	578,414	5,633,384

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Nine Months Ended September 30, 2017					
	Commercial, financial, Real estate Residential Commercial Loans to agricultural construction real estate real estate individuals Total and other					
	(dollars in thousands)					
Allowance for credit losses:						
Originated loans:						
Beginning balance	\$35,974	\$ 577	\$ 2,492	\$ 6,619	\$ 4,504	\$50,166
Charge-offs	(5,776)	—	(954)	(95)	(3,185)	(10,010)
Recoveries	3,819	465	259	206	355	5,104
Provision (credit)	(11,353)	299	1,095	10,593	1,752	2,386
Ending balance	22,664	1,341	2,892	17,323	3,426	47,646
Acquired loans:						
Beginning balance	—	—	19	—	—	19
Charge-offs	—	—	(26)	—	(17)	(43)
Recoveries	1	5	45	4	51	106
Provision (credit)	479	(5)	(32)	40	(34)	448
Ending balance	480	—	6	44	—	530
Total ending balance	\$23,144	\$ 1,341	\$ 2,898	\$ 17,367	\$ 3,426	\$48,176
Ending balance: individually evaluated for impairment	\$1,818	\$ —	\$ 102	\$ 261	\$ —	\$2,181
Ending balance: collectively evaluated for impairment	21,326	1,341	2,796	17,106	3,426	45,995
Loans:						
Ending balance	1,154,225	259,129	1,423,422	1,990,264	548,807	5,375,847
Ending balance: individually evaluated for impairment	15,995	—	7,142	8,189	—	31,326
Ending balance: collectively evaluated for impairment	1,138,230	259,129	1,416,280	1,982,075	548,807	5,344,521

For the Three Months Ended September 30, 2018

Commercial,
financial, Real estate Residential Commercial Loans to
agricultural construction real estate real estate individuals Total
and other
(dollars in thousands)

Allowance for credit losses:						
Originated loans:						
Beginning balance	\$25,082	\$ 1,262	\$ 3,556	\$ 17,731	\$ 3,527	\$51,158
Charge-offs	(2,582)	—	(268)	—	(1,076)	(3,926)
Recoveries	53	92	26	36	153	360
Provision (credit)	(564)	238	296	1,896	1,213	3,079
Ending balance	21,989	1,592	3,610	19,663	3,817	50,671
Acquired loans:						
Beginning balance	23	—	127	6	—	156

Charge-offs	—	—	(9	)	—	(4	)	(13)	
Recoveries	13	—	25	—	12	50				
Provision (credit)	(16)	—	(96)	2	(8)	(118)
Ending balance	20	—	47	8	—	75				
Total ending balance	\$22,009	\$ 1,592	\$ 3,657	\$ 19,671	\$ 3,817	\$50,746				

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three Months Ended, September 30, 2017

Commercial,

financial, Real estate Residential Commercial Loans to
agricultural construction real estate real estate individuals Total
and other

(dollars in thousands)

Allowance for credit losses:

Originated loans:

Beginning balance	\$33,372	\$ 768	\$ 2,116	\$ 7,307	\$ 4,332	\$47,895
Charge-offs	(499)	—	(344)	(35)	(1,015)	(1,893)
Recoveries	183	369	67	60	107	786
Provision (credit)	(10,392)	204	1,053	9,991	2	858
Ending balance	22,664	1,341	2,892	17,323	3,426	47,646
Acquired loans:						
Beginning balance	118	—	4	50	—	172
Charge-offs	—	—	(17)	—	(9)	(26)
Recoveries	1	4	18	—	5	28
Provision (credit)	361	(4)	1	(6)	4	356
Ending balance	480	—	6	44	—	530
Total ending balance	\$23,144	\$ 1,341	\$ 2,898	\$ 17,367	\$ 3,426	\$48,176

Note 10 Income Taxes

At September 30, 2018 and December 31, 2017, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. If applicable, First Commonwealth will record interest and penalties as a component of noninterest expense. Federal and state returns for tax years 2014 and forward remain open for examination as of September 30, 2018.

During the first quarter of 2018, First Commonwealth adopted ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)". Adoption of this ASU reclassified the stranded other accumulated income of \$1.3 million resulting from the tax reform passed in December 2017 from accumulated other comprehensive income to retained earnings. There was no impact to total equity as a result of the adoption of this update. During the first quarter of 2017, First Commonwealth adopted ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)". Adoption of this ASU resulted in a \$0.1 million tax benefit.

Note 11 Fair Values of Assets and Liabilities

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosures for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). All non-financial assets are included either as a separate line item on the Condensed Consolidated Statements of Financial Condition or in the "Other assets" category of the Condensed Consolidated Statements of Financial Condition. Currently, First Commonwealth does not have any non-financial liabilities to disclose.

FASB ASC Topic 825, "Financial Instruments", permits entities to irrevocably elect to measure select financial instruments and certain other items at fair value. The unrealized gains and losses are required to be included in earnings each reporting period for the items that fair value measurement is elected. First Commonwealth has elected not to measure any existing financial instruments at fair value under FASB ASC Topic 825; however, in the future we may elect to adopt this guidance for select financial instruments.

In accordance with FASB ASC Topic 820, First Commonwealth groups financial assets and financial liabilities measured at fair value in three levels based on the principal markets in which the assets and liabilities are transacted and the observability of the data points used to determine fair value. These levels are:

31

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange (“NYSE”). Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained for identical or comparable assets or liabilities from alternative pricing sources with reasonable levels of price transparency. Level 2 includes Obligations of U.S. Government securities issued by Agencies and Sponsored Enterprises, Obligations of States and Political Subdivisions, corporate securities, FHLB stock, loans held for sale, interest rate derivatives (including interest rate caps, interest rate swaps and risk participation agreements), certain other real estate owned and certain impaired loans.

Level 2 investment securities are valued by a recognized third party pricing service using observable inputs. The model used by the pricing service varies by asset class and incorporates available market, trade and bid information as well as cash flow information when applicable. Because many fixed-income investment securities do not trade on a daily basis, the model uses available information such as benchmark yield curves, benchmarking of like investment securities, sector groupings and matrix pricing. The model will also use processes such as an option adjusted spread to assess the impact of interest rates and to develop prepayment estimates. Market inputs normally used in the pricing model include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

Management validates the market values provided by the third party service by having another recognized pricing service price 100% of the securities on an annual basis and a random sample of securities each quarter, monthly monitoring of variances from prior period pricing and, on a monthly basis, evaluating pricing changes compared to expectations based on changes in the financial markets.

Other investments recorded in the Condensed Consolidated Statements of Financial Condition are comprised of FHLB stock whose estimated fair value is based on its par value. Additional information on FHLB stock is provided in Note 8, “Impairment of Investment Securities.”

Loans held for sale primarily include residential mortgage loans originated for sale in the secondary mortgage market. The estimated fair value for these loans was determined on the basis of rates obtained in the respective secondary market. Loans held for sale could also include commercial loans for which fair value is determined using an executed trade or market bid obtained from potential buyers.

Interest rate derivatives are reported at an estimated fair value utilizing Level 2 inputs and are included in other assets and other liabilities, and consist of interest rate swaps where there is no significant deterioration in the counterparties' (loan customers') credit risk since origination of the interest rate swap as well as interest rate caps and risk participation agreements. First Commonwealth values its interest rate swap and cap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the U.S. Dollar yield curve includes cash LIBOR rates from overnight to one year, Eurodollar futures contracts and swap rates from one year to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 12, “Derivatives.”

For purposes of potential valuation adjustments to our derivative positions, First Commonwealth evaluates the credit risk of its counterparties as well as our own credit risk. Accordingly, we have considered factors such as the likelihood of default, expected loss given default, net exposures and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. We review our counterparty exposure quarterly, and when necessary, appropriate adjustments are made to reflect the exposure.

We also utilize this approach to estimate our own credit risk on derivative liability positions. In 2018, we have not realized any losses due to a counterparty's inability to pay any uncollateralized positions.

Interest rate derivatives also include interest rate forwards entered into to hedge residential mortgage loans held for sale and the related interest-rate lock commitments. This includes forward commitments to sell mortgage loans. The fair value of these derivative financial instruments are based on derivative market data inputs as of the valuation date

and the underlying value of mortgage loans for rate lock commitments.

In addition, the Company hedges foreign currency risk through the use of foreign exchange forward contracts. The fair value of foreign exchange forward contracts is based on the differential between the contract price and the market-based forward rate.

32

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated fair value for other real estate owned included in Level 2 is determined by either an independent market-based appraisal less estimated costs to sell or an executed sales agreement.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the valuation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The assets included in Level 3 are pooled trust preferred collateralized debt obligations, non-marketable equity investments, certain interest rate derivatives, certain other real estate owned and certain impaired loans.

Level 3 assets at December 31, 2017 included pooled trust preferred collateralized debt obligations with an estimated fair value of \$23.6 million. During the first six-months of 2018, the entire portfolio of trust preferred securities were liquidated either by a successful auction call or by sale. These securities were considered level 3 because there was little or no active trading since 2009; therefore, it is more appropriate to determine estimated fair value using a discounted cash flow analysis. When determining the fair value of these securities, the discount rate applied to the cash flows was determined by evaluating the current market yields for comparable corporate and structured credit products along with an evaluation of the risks associated with the cash flows of the comparable security.

The estimated fair value of the non-marketable equity investments included in Level 3 is based on par value.

The estimated fair value of limited partnership investments included in Level 3 is based on par value.

For interest rate derivatives included in Level 3, the fair value incorporates credit risk by considering such factors as likelihood of default and expected loss given default based on the credit quality of the underlying counterparties (loan customers).

In accordance with ASU 2011-4, the following table provides information related to quantitative inputs and assumptions used in September 30, 2018 Level 3 fair value measurements.

	Fair Value (dollars in thousands)	Valuation Technique	Unobservable Inputs	Range / (weighted average)	
Equities	1,670	Par Value	N/A	N/A	
Impaired Loans	1,184	(a)	Reserve study	Discount rate	10.00%
				Gas per MMBTU	\$2.81 - \$3.35 (b)
				Oil per BBL/d	\$51.59 - \$59.55 (b)
Limited Partnership Investments	2,521	(a)	Discounted Cash Flow Par Value	Discount Rate	1.9% - 9.5%
				N/A	N/A

(a) The remainder of impaired loans valued using Level 3 inputs are not included in this disclosure as the values of those loans are based on bankruptcy agreement documentation.

(b) Unobservable inputs are defined as follows: MMBTU - million British thermal units; BBL/d - barrels per day. The discount rate is the significant unobservable input used in the fair value measurement of impaired loans. Significant increases in this rate would result in a decrease in the estimated fair value of the loans, while a decrease in this rate would result in a higher fair value measurement. Other unobservable inputs in the fair value measurement of impaired loans relate to gas, oil and natural gas prices. Increases in these prices would result in an increase in the estimated fair value of the loans, while a decrease in these prices would result in a lower fair value measurement.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis:

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	\$ 9,628	\$ —	\$ —	\$ 9,628
Mortgage-Backed Securities - Commercial	—	167,411	—	167,411
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	661,629	—	661,629
Other Government-Sponsored Enterprises	—	100	—	100
Obligations of States and Political Subdivisions	—	27,517	—	27,517
Corporate Securities	—	21,101	—	21,101
Total Debt Securities	—	887,386	—	887,386
Equities	—	—	1,670	1,670
Total Securities Available for Sale	—	887,386	1,670	889,056
Other Investments	—	25,029	—	25,029
Loans Held for Sale	—	8,287	—	8,287
Other Assets(a)	—	9,046	2,521	11,567
Total Assets	\$ 929,748	\$ 4,191	\$ —	\$ 933,939
Other Liabilities(a)	\$ 9,410	\$ —	\$ —	\$ 9,410
Total Liabilities	\$ 9,410	\$ —	\$ —	\$ 9,410

(a) Hedging and non-hedging interest rate derivatives and limited partnership investments

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	\$ 11,338	\$ —	\$ —	\$ 11,338
Mortgage-Backed Securities - Commercial	—	24,149	—	24,149
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	625,555	—	625,555
Other Government-Sponsored Enterprises	—	1,097	—	1,097
Obligations of States and Political Subdivisions	—	27,410	—	27,410
Corporate Securities	—	16,493	—	16,493
Pooled Trust Preferred Collateralized Debt Obligations	—	—	23,646	23,646
Total Debt Securities	—	706,042	23,646	729,688
Equities	—	—	1,670	1,670
Total Securities Available for Sale	—	706,042	25,316	731,358
Other Investments	—	29,837	—	29,837
Loans Held for Sale	—	14,850	—	14,850
Other Assets(a)	—	1,778	2,143	3,921
Total Assets	\$ 752,507	\$ 27,459	\$ —	\$ 779,966
Other Liabilities(a)	\$ 3,079	\$ —	\$ —	\$ 3,079
Total Liabilities	\$ 3,079	\$ —	\$ —	\$ 3,079

(a) Hedging and non-hedging interest rate derivatives and limited partnership investments

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the nine months ended September 30, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	2018			
	Pooled			
	Trust			
	Preferred	Equities	Other	Total
	Collateralized	Debt	Assets	
	Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$23,646	\$ 1,670	\$2,143	\$27,459
Total gains or losses				
Included in earnings	8,102	—	—	8,102
Included in other comprehensive income	(118)	—	—	(118)
Purchases, issuances, sales and settlements				
Purchases	—	—	426	426
Issuances	—	—	—	—
Sales	(12,289)	—	—	(12,289)
Settlements	(19,341)	—	(48)	(19,389)
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$—	\$ 1,670	\$2,521	\$4,191

	2017			
	Pooled			
	Trust			
	Preferred	Equities	Other	Total
	Collateralized	Debt	Assets	
	Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$33,292	\$ 1,670	\$930	\$35,892
Total gains or losses				
Included in earnings	—	—	—	—
Included in other comprehensive income	1,391	—	—	1,391
Purchases, issuances, sales and settlements				
Purchases	—	—	638	638
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(54)	—	(6)	(60)
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$34,629	\$ 1,670	\$1,562	\$37,861

During the nine months ended September 30, 2018 and 2017, there were no transfers between fair value Levels 1, 2 or 3. There were no gains or losses included in earnings for the periods presented that are attributable to the change in realized gains (losses) relating to assets held at September 30, 2018 and 2017.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended September 30, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	2018			
	Pooled	Trust		
	Preferred	Other	Total	
	Equities	Assets		
	Collateralized	Debt		
	Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$ 1,670	\$ 2,297	\$ 3,967	
Total gains or losses				
Included in earnings	—	—	—	
Included in other comprehensive income	—	—	—	
Purchases, issuances, sales and settlements				
Purchases	—	272	272	
Issuances	—	—	—	
Sales	—	—	—	
Settlements	—	(48)	(48)	
Transfers from Level 3	—	—	—	
Transfers into Level 3	—	—	—	
Balance, end of period	\$ 1,670	\$ 2,521	\$ 4,191	
	2017			
	Pooled	Trust		
	Preferred	Other	Total	
	Equities	Assets		
	Collateralized	Debt		
	Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$ 33,648	\$ 1,670	\$ 1,477	\$ 36,795
Total gains or losses				
Included in earnings	—	—	—	—
Included in other comprehensive income	981	—	—	981
Purchases, issuances, sales and settlements				
Purchases	—	—	91	91
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	—	—	(6)	(6)
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$ 34,629	\$ 1,670	\$ 1,562	\$ 37,861

During the three months ended September 30, 2018 and 2017, there were no transfers between fair value Levels 1, 2 or 3. There were no gains or losses included in earnings for the periods presented that are attributable to the change in realized gains (losses) relating to assets held at September 30, 2018 and 2017.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tables below present the balances of assets measured at fair value on a nonrecurring basis at:

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	\$—	\$14,940	\$19,546	\$34,486
Other real estate owned	4,164	—	—	4,164
Total Assets	\$4,164	\$14,940	\$19,546	\$38,650

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	\$—	\$23,249	\$15,245	\$38,494
Other real estate owned	3,264	—	—	3,264
Total Assets	\$3,264	\$23,249	\$15,245	\$41,758

The following gain (losses) were realized on the assets measured on a nonrecurring basis:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in thousands)			
Impaired loans	\$(239)	\$(156)	\$(6,659)	\$160
Other real estate owned	(128)	(116)	(544)	(1,196)
Total losses	\$(367)	\$(272)	\$(7,203)	\$(1,036)

Impaired loans over \$100 thousand are individually reviewed to determine the amount of each loan considered to be at risk of non-collection. The fair value for impaired loans that are collateral based is determined by reviewing real property appraisals, equipment valuations, accounts receivable listings and other financial information. A discounted cash flow analysis is performed to determine fair value for impaired loans when an observable market price or a current appraisal is not available. For real estate secured loans, First Commonwealth's loan policy requires updated appraisals be obtained at least every twelve months on all impaired loans with balances of \$250 thousand and over. For real estate secured loans with balances under \$250 thousand, we rely on broker price opinions. For non-real estate secured assets, the Company normally relies on third party valuations specific to the collateral type.

The fair value for other real estate owned, determined by either an independent market-based appraisal less estimated costs to sell or an executed sales agreement, is classified as Level 2. The fair value for other real estate owned, determined using an internal valuation, is classified as Level 3. OREO has a current carrying value of \$3.9 million as of September 30, 2018 and consists primarily of residential and commercial real estate properties in Pennsylvania. We review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less estimated cost to sell, as determined by valuation techniques appropriate in the circumstances.

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Additional information related to goodwill is provided in Note 13, "Goodwill." There were no other assets or liabilities measured at fair value on a nonrecurring basis during the nine months ended September 30, 2018.

FASB ASC 825-10, "Transition Related to FSP FAS 107-1" and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or

nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are as discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash and due from banks and interest-bearing bank deposits: The carrying amounts for cash and due from banks and interest-bearing bank deposits approximate the estimated fair values of such assets.

Securities: Fair values for securities available for sale and held to maturity are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Pooled trust preferred collateralized debt obligations values are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. These valuations incorporate certain assumptions and projections in determining the fair value assigned to each instrument. The carrying value of other investments, which includes FHLB stock, is considered a reasonable estimate of fair value.

Loans: The fair values of all loans are estimated by discounting the estimated future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality adjusted for past due and nonperforming loans.

Loans held for sale: The estimated fair value of loans held for sale is based on market bids obtained from potential buyers.

Off-balance sheet instruments: Many of First Commonwealth's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. FASB ASC Topic 460, "Guarantees" clarified that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The carrying amount and fair value for standby letters of credit was \$0.2 million at September 30, 2018 and December 31, 2017. See Note 6, "Commitments and Contingent Liabilities," for additional information.

Deposit liabilities: The estimated fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date because of the customers' ability to withdraw funds immediately. The carrying value of variable rate time deposit accounts and certificates of deposit approximate their fair values at the report date. Also, fair values of fixed rate time deposits for both periods are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities.

Short-term borrowings: The fair values of borrowings from the FHLB were estimated based on the estimated incremental borrowing rate for similar type borrowings. The carrying amounts of other short-term borrowings such as federal funds purchased and securities sold under agreement to repurchase were used to approximate fair value due to the short-term nature of the borrowings.

Subordinated debt, long-term debt and capital lease obligation: The fair value is estimated by discounting the future cash flows using First Commonwealth's estimate of the current market rate for similar types of borrowing arrangements or an announced redemption price.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents carrying amounts and fair values of First Commonwealth's financial instruments:

September 30, 2018

Fair Value Measurements Using:

Carrying Amount	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
Financial assets				
Cash and due from banks	\$93,162	\$93,162	\$93,162	\$ —
Interest-bearing deposits	3,022	3,022	3,022	—
Securities available for sale	889,056	889,056	—	887,386
Securities held to maturity	389,621	373,933	—	373,933
Other investments	25,029	25,029	—	25,029
Loans held for sale	8,287	8,287	—	8,287
Loans	5,662,782	5,643,537	—	14,940
Financial liabilities				
Deposits	5,895,143	5,894,839	—	5,894,839
Short-term borrowings	587,806	587,776	—	587,776
Subordinated debt	170,249	173,533	—	—
Long-term debt	7,706	7,781	—	7,781
Capital lease obligation	7,311	7,311	—	7,311

December 31, 2017

Fair Value Measurements Using:

Carrying Amount	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
Financial assets				
Cash and due from banks	\$98,624	\$98,624	\$98,624	\$ —
Interest-bearing deposits	8,668	8,668	8,668	—
Securities available for sale	731,358	731,358	—	706,042
Securities held to maturity	422,096	418,249	—	418,249
Other investments	29,837	29,837	—	29,837
Loans held for sale	14,850	14,850	—	14,850
Loans	5,407,376	5,443,434	—	23,249
Financial liabilities				
Deposits	5,580,705	5,580,812	—	5,580,812
Short-term borrowings	707,466	707,263	—	707,263
Subordinated debt	72,167	65,785	—	—
Long-term debt	8,161	8,548	—	8,548
Capital lease obligation	7,590	7,590	—	7,590

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Derivatives

Derivatives Not Designated as Hedging Instruments

First Commonwealth is a party to interest rate derivatives that are not designated as hedging instruments. These derivatives relate to interest rate swaps that First Commonwealth enters into with customers to allow customers to convert variable rate loans to a fixed rate. First Commonwealth pays interest to the customer at a floating rate on the notional amount and receives interest from the customer at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the customer, an offsetting interest rate swap is entered into with another financial institution. First Commonwealth pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the customer, and receives interest from the financial institution for the same floating rate on the same notional amount.

The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties.

We have 50 risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are a participant. The risk participation agreements provide credit protection to the financial institution should the borrower fail to perform on its interest rate derivative contract with the financial institution. We have twelve risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are the lead bank. The risk participation agreement provides credit protection to us should the borrower fail to perform on its interest rate derivative contract with us.

First Commonwealth is also party to interest rate caps that are not designated as hedging instruments. These derivatives relate to contracts that First Commonwealth enters into with loan customers that provide a maximum interest rate on their variable rate loan. At the same time the interest rate cap is entered into with the customer, First Commonwealth enters into an offsetting interest rate cap with another financial institution. The notional amount and maximum interest rate on both interest cap contracts are identical.

The fee received, less the estimate of the loss for the credit exposure, was recognized in earnings at the time of the transaction.

Derivatives Designated as Hedging Instruments

The Company has entered into an interest rate swap contract that was designated as a cash flow hedge. The interest rate swap has a notional amount of \$65.0 million with an original maturity of four years. The maturity date for this contract is March 4, 2019. The Company's risk management objective for this hedge is to reduce its exposure to variability in expected future cash flows related to interest payments on commercial loans benchmarked to the 1-month LIBOR rate. Therefore, the interest rate swap converts the interest payments on the first \$65.0 million of a 1-month LIBOR based commercial loan into fixed rate payments.

The periodic net settlement of interest rate swaps is recorded as an adjustment to "Interest and fees on loans" in the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2018 there was a \$0.2 million and \$0.4 million negative impact on net interest income as a result of these interest rate swaps. Changes in the fair value of the effective portion of cash flow hedges are reported in OCI. When the cash flows associated with the hedged item are realized, the gain or loss included in OCI is recognized in "Interest and fees on loans," the same line item in the Condensed Consolidated Statements of Income as the income on the hedged items. The cash flow hedges were highly effective at September 30, 2018 and December 31, 2017, and changes in the fair value attributed to hedge ineffectiveness were not material.

The Company also enters into interest rate lock commitments in conjunction with its mortgage origination business. These are commitments to originate loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Company locks the rate in with an investor and commits to deliver the loan if settlement occurs ("best efforts") or commits to deliver the locked loan in a binding ("mandatory") delivery program with an investor. Loans under mandatory rate lock commitments are covered under forward sales contracts of

mortgage-backed securities ("MBS"). Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in "Other noninterest expense" in the Condensed Consolidated Statements of Income. The impact to noninterest expense for both the three and nine months ended September 30, 2018 was an increase of \$0.1 million. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. We determine the fair value of rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates and taking into consideration the probability that the rate lock commitments will close or will be funded. At September 30, 2018, the underlying funded

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

mortgage loan commitments had a carrying value of \$7.6 million and a fair value of \$8.2 million, while the underlying unfunded mortgage loan commitments had a notional amount of \$16.7 million. At December 31, 2017, the underlying funded mortgage loan commitments had a carrying value of \$14.3 million and a fair value of \$14.7 million, while the underlying unfunded mortgage loan commitments had a notional amount of \$13.8 million. The interest rate lock commitments increased other noninterest expense by \$0.1 million for both the three and nine months ended September 30, 2018.

In addition, a small amount of interest income on loans is exposed to changes in foreign exchange rates. Several commercial borrowers have a portion of their operations outside of the United States and borrow funds on a short-term basis to fund those operations. In order to reduce the risk related to the translation of foreign denominated transactions into U.S. dollars, the Company enters into foreign exchange forward contracts. These contracts relate principally to the Euro and the Canadian dollar. The contracts are recorded at fair value with changes in fair value recorded in "Other noninterest expense" in the Condensed Consolidated Statements of Income. The impact on other noninterest expense for the nine months ended September 30, 2018 totaled \$10 thousand. At September 30, 2018 and December 31, 2017, the underlying loans had a carrying value of \$4.0 million and \$10.0 million, respectively, and a fair value of \$4.0 million and \$10.1 million, respectively.

The following table depicts the credit value adjustment recorded related to the notional amount of derivatives outstanding as well as the notional amount of risk participation agreements participated to other banks:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Derivatives not Designated as Hedging Instruments		
Credit value adjustment	\$(1)	\$ (791)
Notional amount:		
Interest rate derivatives	402,840	1,304
Interest rate caps	36,194	6,444
Risk participation agreements	201,989	7,660
Sold credit protection on risk participation agreements	(64,182)	(26,170)
Interest rate options	16,718	—
Derivatives Designated as Hedging Instruments		
Interest rate swaps:		
Fair value adjustment	(294)	459
Notional amount	65,000	50,000
Interest rate forwards:		
Fair value adjustment	(77)	19
Notional amount	19,000	7,000
Foreign exchange forwards:		
Fair value adjustment	6	(70)
Notional amount	4,058	10,077

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below presents the amount representing the change in the fair value of derivative assets and derivative liabilities attributable to credit risk included in "Other income" on the Condensed Consolidated Statements of Income:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018	2017
	(dollars in thousands)		
Non-hedging interest rate derivatives			
(Decrease) increase in other income	\$—\$(13)	\$789	\$(49)
Increase (decrease) in other expense	221—	(432)	—
Hedging interest rate derivatives			
(Decrease) increase in interest and fees on loans	(1)35	(424)	420
Increase in other expense	— 9	10	82
Hedging interest rate forwards			
Increase (decrease) in other expense	12561	96	(34)
Hedging foreign exchange forwards			
Increase in other expense	2 2	10	3

The fair value of our derivatives is included in a table in Note 11, "Fair Values of Assets and Liabilities," in the line items

"Other assets" and "Other liabilities."

Note 13 Goodwill

FASB ASC Topic 350-20, "Intangibles – Goodwill and Other" requires an annual valuation of the fair value of a reporting unit that has goodwill and a comparison of the fair value to the book value of equity to determine whether the goodwill has been impaired. Goodwill is also required to be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. When triggering events or circumstances indicate that goodwill testing is required, an assessment of qualitative factors can be completed before performing the two step goodwill impairment test. ASU 2011-8 provides that if an assessment of qualitative factors determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then the two step goodwill impairment test is not required.

We consider First Commonwealth to be one reporting unit. The carrying amount of goodwill as of September 30, 2018 and December 31, 2017 was \$274.2 million and \$255.4 million, respectively. Goodwill increased \$18.8 million during the nine months ended September 30, 2018 primarily as a result of the acquisition of Garfield in May 2018. No impairment charges on goodwill or other intangible assets were incurred in 2018 or 2017.

We test goodwill for impairment as of November 30th each year and again at any quarter-end if any material events occur during a quarter that may affect goodwill.

As of September 30, 2018, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance, the fair value of our assets and liabilities, or our stock price could result in impairment, which could adversely affect earnings in future periods. Management will continue to monitor events that could impact this conclusion in the future.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Subordinated Debentures

Subordinated Debentures outstanding are as follows:

	September 30, 2018		December 31, 2017	
	Due	Amount Rate	Amount	Rate
(dollars in thousands)				
Owed to:				
First Commonwealth Bank	2028	\$49,109		4.875% until June 1, 2023, then LIBOR + 1.845%
First Commonwealth Bank	2033	\$48,973		5.50% until June 1, 2028, then LIBOR + 2.37%
First Commonwealth Capital Trust II	2034	\$30,929	\$30,929	LIBOR + 2.85%
First Commonwealth Capital Trust III	2034	41,238	41,238	LIBOR + 2.85%
Total		\$170,249	\$72,167	

On May 21, 2018, First Commonwealth issued ten-year subordinated notes with an aggregate principal amount of \$50.0 million and a fixed-to-floating rate of 4.875%. The rate remains fixed until June 1, 2023, then adjusts on a quarterly basis to LIBOR + 1.845%. The Bank may redeem the notes, beginning with the interest payment due on June 1, 2023, in whole or in part at a redemption price equal to 100% of the principal amount of the subordinated notes, plus accrued and unpaid interest to the date of redemption. Deferred issuance costs of \$0.9 million are being amortized on a straight-line basis over the term of the notes.

On May 21, 2018, First Commonwealth issued fifteen-year subordinated notes with an aggregate principal amount of \$50.0 million and a fixed-to-floating rate of 5.50%. The rate remains fixed until June 1, 2028, then adjusts on a quarterly basis to LIBOR + 2.37%. The Bank may redeem the notes, beginning with the interest payment due on June 1, 2028, in whole or in part at a redemption price equal to 100% of the principal amount of the subordinated notes, plus accrued and unpaid interest to the date of redemption. Deferred issuance costs of \$1.1 million are being amortized on a straight-line basis over the term of the notes.

First Commonwealth currently has two trusts, First Commonwealth Capital Trust II and First Commonwealth Capital Trust III, of which 100% of the common equity is owned by First Commonwealth. The trusts were formed for the purpose of issuing company obligated mandatorily redeemable capital securities to third-party investors and investing the proceeds from the sale of the capital securities solely in junior subordinated debt securities ("subordinated debentures") of First Commonwealth. The subordinated debentures held by each trust are the sole assets of the trust. Interest on the debentures issued to First Commonwealth Capital Trust III is paid quarterly at a floating rate of LIBOR + 2.85% which is reset quarterly. Subject to regulatory approval, First Commonwealth may redeem the debentures, in whole or in part, at its option on any interest payment date at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest to the date of the redemption. Deferred issuance costs of \$630 thousand are being amortized on a straight-line basis over the term of the securities.

Interest on the debentures issued to First Commonwealth Capital Trust II is paid quarterly at a floating rate of LIBOR + 2.85%, which is reset quarterly. Subject to regulatory approval, First Commonwealth may redeem the debentures, in whole or in part, at its option at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest to the date of the redemption. Deferred issuance costs of \$471 thousand are being amortized on a straight-line basis over the term of the securities.

Note 15 Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, First Commonwealth will generally be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the

43

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue, therefore a cumulative effect adjustment to opening retained earnings was not necessary.

In connection with the adoption of Topic 606, First Commonwealth is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, for example, sales commission. The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

The Company also evaluated whether it has any significant contract balances. A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration resulting in a contract receivable or before payment is due resulting in a contract asset. A contract liability balance is an entity's obligation to transfer a service to a customer for which the Company has already received payment from the customer. First Commonwealth's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as trust income which is based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of September 30, 2018 and December 31, 2017, the Company did not have any significant contract balances.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with derivatives are not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust income, service charges on deposits, insurance and retail brokerage commissions, card related interchange income and gain (loss) on sale of OREO. The recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers.

Noninterest revenue streams in-scope of Topic 606 are discussed below:

Trust Income

Trust income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon a tiered scale of market value of the assets under management at month-end. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as financial planning or tax return preparation services are also available to trust customers. The Company's performance obligation for these transactional-based services is generally satisfied and related revenue recognized, at a point in time. Payment is

received shortly after services are rendered.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of fees earned from its deposit customers for transaction-based, account maintenance, overdraft services and account analysis fees. Transaction-based fees, which include services such as ATM use fees, stop payment fees, statement rendering and ACH fees are recognized at the time the transaction is executed which is the point in time the Company fulfills the customer's request. Monthly account maintenance fees are earned over the course of the month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. The Company's performance obligation for account analysis fees is generally satisfied, and the related revenue recognized, during the month the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Insurance and Retail Brokerage Commissions

Insurance income primarily consists of commissions received from execution of personal, business and health insurance policies when acting as an agent on behalf of insurance carriers. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Because the Company's contracts with the insurance carriers are generally cancellable by either party, with minimal notice, insurance commissions are recognized during the policy period as received. Also, the majority of insurance commissions are received on a monthly basis during the policy period, however some carriers pay the full annual commission to First Commonwealth at the time of policy issuance or renewal. In these cases, First Commonwealth would be required to refund any commissions it would not be entitled to as a result of cancelled or terminated policies. The Company has established a refund liability for the remaining term of the policies expected to be cancelled. The Company also receives incentive-based contingency fees from the insurance carriers. Contingency fee revenue, which totals approximately \$0.4 million per year, is recognized as received due to the immaterial amount.

Retail brokerage income primarily consists of commissions received on annuity and investment product sales through a third-party service provider. The Company's performance obligation is generally satisfied upon the issuance of the annuity policy or the execution of an investment transaction. The Company does not earn a significant amount of trailer fees on annuity sales. However, after considering the factors impacting these trailer fees, such as the uncertainty of investor behavior and changes in the market value of assets, First Commonwealth determined that it would recognize trailing fees as received because it could not reasonably estimate an amount of future trailing commissions for which collection is probable. Commissions from the third-party service provider are received on a monthly basis based upon customer activity for the month. The fees are recognized monthly with a receivable until commissions are received from the third-party service provider the following month. Because the Company acts as an agent in arranging the relationship between the customer and the third-party service provider and does not control the services rendered to the customers, retail brokerage fees are presented net of related costs, including \$1.7 million in commission expense.

Card Related Interchange Income

Card related interchange income is primarily comprised of debit and credit card income, ATM fees and merchant services income. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Card related interchange income is recognized daily as the customer transactions are settled.

Other Income

Other income includes service revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for these services are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Gains(losses) on sales of OREO

First Commonwealth records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When First Commonwealth finances the sale of OREO to the buyer, an assessment of whether the buyer is committed to perform their obligations under the contract is completed along with an evaluation of whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, First Commonwealth adjusts the transaction price and related gain(loss) on sale if a significant financing component is present.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The impact on the condensed consolidated statements of income of adopting ASC 606 is outlined below:

	For the Three Months Ended			For the Nine Months Ended		
	September 30, 2018			September 30, 2018		
	As Reported	Under Legacy GAAP	Impact of ASC 606	As Reported	Under Legacy GAAP	Impact of ASC 606
(dollars in thousands)						
Noninterest Income						
Net securities gains	\$—	\$—	\$ —	\$8,102	\$8,102	\$ —
Trust income	2,206	2,206	—	6,014	6,014	—
Service charges on deposit accounts	4,589	4,589	—	13,418	13,418	—
Insurance and retail brokerage commissions	1,872	2,531	(659)	5,560	7,272	(1,712)
Income from bank owned life insurance	1,579	1,579	—	5,241	5,241	—
Gain on sale of mortgage loans	1,542	1,542	—	4,267	4,267	—
Gain on sale of other loans and assets	643	643	—	3,548	3,548	—
Card-related interchange income	5,044	5,044	—	14,929	14,929	—
Derivatives mark to market	—	—	—	789	789	—
Swap fee income	528	528	—	1,115	1,115	—
Other income	1,754	2,033	(279)	5,125	5,877	(752)
Total noninterest income	19,757	20,695	(938)	68,108	70,572	(2,464)
Noninterest Expense						
Salaries and employee benefits	26,553	27,212	(659)	77,580	79,292	(1,712)
Net occupancy expense	4,341	4,341	—	12,932	12,932	—
Furniture and equipment expense	3,424	3,424	—	10,611	10,611	—
Data processing expense	2,853	2,983	(130)	7,764	8,067	(303)
Advertising and promotion expense	1,200	1,200	—	3,185	3,185	—
Pennsylvania shares tax expense	1,248	1,248	—	3,398	3,398	—
Intangible amortization	817	817	—	2,430	2,430	—
Collection and repossession expense	630	630	—	2,060	2,060	—
Other professional fees and services	962	962	—	3,000	3,000	—
FDIC insurance	217	217	—	1,590	1,590	—
Loss on sale or write-down of assets	181	181	—	875	875	—
Litigation and operational losses	435	435	—	811	811	—
Merger and acquisition related	24	24	—	1,634	1,634	—
Other operating expenses	6,645	6,794	(149)	17,662	18,111	(449)
Total noninterest expense	\$49,530	\$50,468	(938)	\$145,532	\$147,996	(2,464)
Net Impact			\$ —			\$ —

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(dollars in thousands)			
Noninterest Income				
In-scope of Topic 606:				
Trust income	\$2,206	\$2,147	\$6,014	\$5,275
Service charges on deposit accounts	4,589	4,803	13,418	13,858
Insurance and retail brokerage commissions	1,872	2,128	5,560	6,652
Card-related interchange income	5,044	4,780	14,929	13,873
Gain on sale of other loans and assets	335	181	726	542
Other income	928	1,238	2,800	3,116
Noninterest Income (in-scope of Topic 606)	14,974	15,277	43,447	43,316
Noninterest Income (out-of-scope of Topic 606)	4,783	4,513	24,661	12,310
Total Noninterest Income	\$19,757	\$19,790	\$68,108	\$55,626

Note 16 New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Additionally, the FASB issued ASU No. 2018-01, "Leases (Topic 842)" in January 2018 and ASU No. 2018-11, "Leases - Targeted Improvements" in July 2018. Both of these ASU's provide certain improvements and optional practical expedients to Topic 842. Under this new guidance, all entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. First Commonwealth has elected the transition option provided in ASU No. 2018-11, which provides for the modified retrospective approach to be applied on January 1, 2019. We have established a lease implementation team, which includes members of finance, facilities, information technology and operations. The implementation team has analyzed data on leased assets, assessed the impact of the new standard on disclosures, processes and internal controls over financial reporting and evaluated the election of certain practical expedients. During the third quarter of 2018, the implementation of a third-party software was completed in order to assist with evaluating the impact of this ASU. The implementation team continues to validate data input into the third-party software as well as finalize disclosures and internal controls. This new standard will increase assets and liabilities for the right-of-use assets and associated lease liabilities but is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which amends the guidance for recognizing credit losses from an "incurred loss" methodology that delays recognition of credit losses until it is probable a loss has been incurred to an expected credit loss methodology. The Current Expected Credit Loss ("CECL") methodology requires the use of the modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The standard is effective for the Company as of January 1, 2020. We have established a CECL implementation team, which includes members from the finance and credit areas, with oversight

by the Chief Executive Officer, Chief Financial Officer and Chief Credit Officer. During the third quarter, Management completed the implementation of a third party software to assist with this ASU. Management is currently evaluating the impact of the amended guidance on First Commonwealth's financial condition or results of operations. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment" which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Impairment should be recognized for the amount by which the carrying

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. Income tax effects from any tax deductible goodwill should be taken into consideration of the carrying amount of the reporting unit when measuring for goodwill impairment, if applicable. An entity still has the option to perform the qualitative assessment for the reporting unit to determine if the quantitative impairment test is necessary. This standard is effective for interim and annual periods for fiscal years beginning after December 15, 2019. The adoption of this ASU is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities" with the objective of improving the financial reporting of hedging relationships to better portray the economic results of risk management activities in its financial statements. The main provisions of this ASU update the hedge accounting model to expand the ability to hedge risk, reduce complexity, and ease certain documentation and assessment requirements. It also eliminates the requirement to separately measure and report hedge ineffectiveness, and generally requires the change in fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of this ASU is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 22)" allowing a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. This amendment also requires certain disclosures about the stranded tax effects, including disclosure of the policy for releasing income tax effects from accumulated other comprehensive income and the impact if the entity elected to reclassify the income tax effects or, if the entity did not elect to reclassify, a statement that the entity did not elect to reclassify. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted this ASU as of January 1, 2018. Adoption of this ASU did not have a material impact on First Commonwealth's financial condition or results of operations.

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This ASU updates disclosure requirements for fair value measurements, including elimination of the disclosure related to the amount and reason for transfers between Level 1 and Level 2 of the fair value hierarchy. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Adoption of this ASU will not have a material impact on First Commonwealth's financial condition or results of operations, as it relates only to disclosure requirements.

Note 17 Subsequent Event

On October 23, 2018, a share repurchase program was authorized by the Board of Directors for up to \$25.0 million in shares of the Company's common stock. Under this program, management is authorized to repurchase shares through Rule 10b5-1 plans, open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. Depending on market conditions and other factors, repurchases may be made at any time or from time to time, without prior notice. First Commonwealth may suspend or discontinue the program at any time.

Table of Contents

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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 nine months ended September 30, 2018 and 2017, 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, notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in our future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute “forward-looking statements” as well. 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 similar meaning. These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors, including, but not limited to: (1) local, regional, national and international economic conditions and the impact they may have on First Commonwealth and its customers; (2) volatility and disruption in national and international financial markets; (3) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; (4) inflation, interest rate, commodity price, securities market and monetary fluctuations; (5) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which First Commonwealth or its customers must comply; (6) the soundness of other financial institutions; (7) political instability; (8) impairment of First Commonwealth’s goodwill or other intangible assets; (9) acts of God or of war or terrorism; (10) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (11) changes in consumer spending, borrowings and savings habits; (12) changes in the financial performance and/or condition of First Commonwealth’s borrowers; (13) technological changes; (14) acquisitions and integration of acquired businesses; (15) First Commonwealth’s ability to attract and retain qualified employees; (16) changes in the competitive environment in First Commonwealth’s markets and among banking organizations and other financial service providers; (17) the ability to increase market share and control expenses; (18) 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; (19) the reliability of First Commonwealth’s vendors, internal control systems or information systems; (20) 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 (21) 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 these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and our

business and performance trends as they facilitate comparison with the performance of others in the financial services industry. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. 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 pages 52 and 59 for the nine and three months ended September 30, 2018 and 2017, respectively.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Selected Financial Data

The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, and with the Condensed Consolidated Financial Statements and related notes.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2018	2017	2018	2017	
	(dollars in thousands, except per share data)				
Net Income	\$25,149	\$21,283	\$80,500	\$51,184	
Per Share Data:					
Basic Earnings per Share	\$0.25	\$0.22	\$0.81	\$0.54	
Diluted Earnings per Share	0.25	0.22	0.81	0.54	
Cash Dividends Declared per Common Share	0.09	0.08	0.26	0.24	
Average Balance:					
Total assets	\$7,662,029	\$7,377,373	\$7,495,490	\$7,158,451	
Total equity	970,402	888,781	933,489	839,846	
End of Period Balance:					
Net loans ⁽¹⁾			\$5,620,323	\$5,344,771	
Total assets			7,686,345	7,384,339	
Total deposits			5,895,143	5,555,057	
Total equity			972,931	894,301	
Key Ratios:					
Return on average assets	1.30	% 1.14	% 1.44	% 0.96	%
Return on average equity	10.28	% 9.50	% 11.53	% 8.15	%
Dividends payout ratio	36.00	% 36.36	% 32.10	% 44.44	%
Average equity to average assets ratio	12.67	% 12.05	% 12.45	% 11.73	%
Net interest margin	3.67	% 3.61	% 3.71	% 3.55	%
Net loans to deposits ratio			95.34	% 96.21	%

⁽¹⁾ Includes loans held for sale.

Results of Operations

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Net Income

For the nine months ended September 30, 2018, First Commonwealth had net income of \$80.5 million, or \$0.81 diluted earnings per share, compared to net income of \$51.2 million, or \$0.54 diluted earnings per share, in the nine months ended September 30, 2017. Growth in net income is a result of increases in net interest income and noninterest income, as well as a decrease in noninterest expense, offset by an increase in the provision for credit losses. Also contributing to the increase in net income is a decrease in the statutory Federal tax rate from 35% in 2017 to 21% in 2018.

For the nine months ended September 30, 2018, the Company's return on average equity was 11.53% and its return on average assets was 1.44%, compared to 8.15% and 0.96%, respectively, for the nine months ended September 30, 2017.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was \$188.7 million in the first nine months of 2018, compared to \$172.4 million for the same period in 2017. This increase was due to both growth in average interest earning assets of \$302.6 million and a 38 basis point increase in the yield on interest earning assets. Net interest income comprises

the majority of our operating revenue (net interest income before provision expense plus noninterest income), at 73% and 75% for the nine months ended September 30, 2018 and 2017, respectively.

The net interest margin, on a fully taxable equivalent basis, was 3.71% and 3.55% for the nine months ended September 30, 2018 and September 30, 2017, respectively. The 16 basis point increase in the net interest margin is attributable to both

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities, as well as three basis points attributable to the recognition of previously unrecognized interest income on assets that had previously been impaired.

The taxable equivalent yield on interest-earning assets was 4.25% for the nine months ended September 30, 2018, an increase of 38 basis points compared to the 3.87% yield for the same period in 2017. This increase is largely due to an increase in the loan portfolio yield, which improved by 41 basis points when compared to the nine months ended September 30, 2017. Contributing to this increase was an increase in the yield on our adjustable and variable rate commercial loan portfolios, which increased 72 basis points largely due to the Federal Reserve increasing short term interest rates 150 basis points since December 2016. The yield on the investment portfolio increased 15 basis points in comparison to the prior year. The majority of this increase can be attributed to investment security runoff being replaced with higher yielding investments. Additionally, three basis points of the increase in the yield on interest-earnings assets can be attributed to the recognition of \$1.5 million in previously unrecognized interest due to the sale of one previously impaired commercial loan and our trust preferred security portfolio. Investment portfolio purchases during the nine months ended September 30, 2018 have been primarily in mortgage-related assets with approximate durations of 30-64 months and corporate securities with durations of approximately five years. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities at higher rates if interest rates rise.

The cost of interest-bearing liabilities increased to 0.71% for the nine months ended September 30, 2018, from 0.42% for the same period in 2017, primarily due to an increase in the cost of short-term borrowings and an increase in long term debt as a result of the issuance of \$100 million of subordinated debt in the second quarter of 2018. Deposits acquired in our recent acquisitions, along with approximately \$50 million of the subordinated debt proceeds and organic growth in consumer checking and savings deposits, contributed to a decline in average short-term borrowings of \$273.4 million for the nine months ended September 30, 2018 compared to the same period in 2017. Higher market interest rates resulted in the cost of interest-bearing deposits increasing 20 basis points and short-term borrowings increasing 65 basis points in comparison to the same period last year. The impact of the subordinated debt on the cost of interest-bearing liabilities was 3 basis points for the nine months ended September 30, 2018.

For the nine months ended September 30, 2018, changes in interest rates positively impacted net interest income by \$7.1 million when compared with the same period in 2017. The higher yield on interest-earning assets positively impacted net interest income by \$18.3 million, while the increase in the cost of interest-bearing liabilities negatively impacted net interest income by \$11.2 million.

Changes in the volume of interest-earning assets and interest-bearing liabilities positively impacted net interest income by \$9.2 million in the nine months ended September 30, 2018, as compared to the same period in 2017. Higher levels of interest-earning assets resulted in an increase of \$9.7 million in interest income, and changes in the volume of interest-bearing liabilities increased interest expense by \$0.5 million, primarily due to an increase in long term borrowings as a result of the subordinated debt issued in May 2018. Average earning assets for the nine months ended September 30, 2018 increased \$302.6 million, or 4.7%, compared to the same period in 2017. Average loans for the comparable period increased \$315.3 million, or 6.0%.

Net interest income also benefited from a \$151.5 million increase in average net free funds at September 30, 2018 as compared to September 30, 2017. 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 of \$89.2 million, or 6.7%, in noninterest-bearing demand deposit average balances. Average time deposits for the nine months ended September 30, 2018 increased by \$146.0 million at higher costs compared to the comparable period in 2017, increasing interest expense by \$2.9 million. Increases in market interest rates negatively impacted interest expense by \$11.2 million, while changes in the mix of interest-bearing liabilities had a \$0.5 million negative impact.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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 nine months ended September 30:

	2018	2017
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	\$214,312	\$184,710
Adjustment to fully taxable equivalent basis	1,509	3,171
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	215,821	187,881
Interest expense	27,139	15,500
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	\$188,682	\$172,381

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

	2018			2017		
	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	\$5,068	\$ 109	2.88 %	\$12,838	\$ 97	1.01 %
Tax-free investment securities	67,694	1,559	3.08	67,202	1,865	3.71
Taxable investment securities	1,178,190	24,443	2.77	1,183,574	22,852	2.58
Loans, net of unearned income (b)(c)	5,541,600	189,710	4.58	5,226,320	163,067	4.17
Total interest-earning assets	6,792,552	215,821	4.25	6,489,934	187,881	3.87
Noninterest-earning assets:						
Cash	92,517			90,072		
Allowance for credit losses	(52,885)			(51,493)		
Other assets	663,306			629,938		
Total noninterest-earning assets	702,938			668,517		
Total Assets	\$7,495,490			\$7,158,451		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$1,181,295	\$ 3,244	0.37 %	\$1,045,242	\$ 962	0.12 %
Savings deposits (d)	2,446,013	5,884	0.32	2,353,186	2,905	0.17
Time deposits	718,164	5,511	1.03	572,128	2,644	0.62
Short-term borrowings	614,103	7,387	1.61	887,463	6,373	0.96
Long-term debt	135,368	5,113	5.05	85,843	2,616	4.07
Total interest-bearing liabilities	5,094,943	27,139	0.71	4,943,862	15,500	0.42
Noninterest-bearing liabilities and shareholders' equity:						
Noninterest-bearing demand deposits (d)	1,426,566			1,337,328		
Other liabilities	40,492			37,415		
Shareholders' equity	933,489			839,846		
Total Noninterest-Bearing Funding Sources	2,400,547			2,214,589		
Total Liabilities and Shareholders' Equity	\$7,495,490			\$7,158,451		
Net Interest Income and Net Yield on Interest-Earning Assets						
		\$ 188,682	3.71 %		\$ 172,381	3.55 %

Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 21% federal (a) income tax statutory rate for the nine months ended September 30, 2018 and the 35% federal income tax statutory rate for the nine months ended September 30, 2017.

(b) Loan balances include held for sale and nonaccrual loans. Income on nonaccrual loans is accounted for on the cash basis.

(c) Loan income includes loan fees earned.

(d) Average balances do not include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits, which were made for regulatory purposes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the nine months ended September 30, 2018 compared with September 30, 2017:

Analysis of Year-to-Year Changes in Net Interest Income			
	Total Change	Change Due To Volume	Change Due To Rate (a)
(dollars in thousands)			
Interest-earning assets:			
Interest-bearing deposits with banks	\$ 12	\$ (59)	\$ 71
Tax-free investment securities	(306)	14	(320)
Taxable investment securities	1,591	(104)	1,695
Loans	26,643	9,833	16,810
Total interest income (b)	27,940	9,684	18,256
Interest-bearing liabilities:			
Interest-bearing demand deposits	2,282	122	2,160
Savings deposits	2,979	118	2,861
Time deposits	2,867	677	2,190
Short-term borrowings	1,014	(1,963)	2,977
Long-term debt	2,497	1,508	989
Total interest expense	11,639	462	11,177
Net interest income	\$ 16,301	\$ 9,222	\$ 7,079

(a) Changes in interest income or expense not arising solely as a result of volume or rate variances are allocated to rate variances.

(b) Changes in interest income have been computed on a fully taxable equivalent basis using the 21% federal income tax statutory rate.

Provision for Credit Losses

The provision for credit losses is determined based on management's estimates of the appropriate level of the allowance for credit losses needed for probable losses inherent in the loan portfolio, after giving consideration to charge-offs and recoveries for the period. The provision for credit losses is an amount added to the allowance, against which credit losses are charged.

The table below provides a breakout of the provision for credit losses by loan category for the nine months ended September 30:

	2018		2017	
	Dollars	Percentage	Dollars	Percentage
(dollars in thousands)				
Commercial, financial, agricultural and other	\$ 1,414	13 %	\$(10,874)	(384)%
Real estate construction	144	1	294	10
Residential real estate	1,607	15	1,063	38
Commercial real estate	4,602	42	10,633	375
Loans to individuals	3,265	29	1,718	61
Total	\$ 11,032	100 %	\$ 2,834	100 %

The provision for credit losses for the nine months ended September 30, 2018 increased in comparison to the nine months ended September 30, 2017 by \$8.2 million. The level of provision expense in the first nine months of 2018 is

primarily a result of a \$1.2 million increase in specific reserves for two commercial real estate loans and a \$2.2 million charge-off for another commercial real estate loan. The increase in the provision for commercial, financial, agricultural and other loans is related to a \$2.8 million specific reserve for one borrower. The provision expense for loans to individuals is a result of \$2.9 million in net charge-offs recognized during the nine months ended September 30, 2018, with \$1.6 million of the charge-offs related to indirect auto loans and \$0.9 million to personal lines of credit. The majority of the provision expense for the residential real estate category can be attributed to growth in the portfolio in comparison to December 31, 2017.

The level of provision expense in the first nine months of 2017 is primarily due to net charge-offs in the loans to individuals and commercial, financial, agricultural and other categories, as well as a \$1.0 million decrease in specific reserves related to nonperforming loans. Net charge-offs in the loans to individual category totaled \$2.8 million for the nine months ended

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

September 30, 2017, with \$1.9 million related to indirect auto loans and \$0.7 million to personal lines of credit. Net charge-offs in the commercial, financial, agricultural and other category totaled \$2.0 million for the same period. The level of provision expense for the commercial, financial, agricultural and other category was impacted by a decline in outstanding balances, while growth in commercial real estate loans contributed to an increase in provision expense for that loan type. Additionally, the provision expense for both of these categories was impacted by the Company's periodic assessment of the allowance for loan loss methodology, the current lending environment, and associated risks for each portfolio, which resulted in charges to certain qualitative factors, such as collateral recovery rates and vacancy rates.

The allowance for credit losses was \$50.7 million, or 0.90%, of total loans outstanding and 0.99% of total originated loans outstanding at September 30, 2018, compared to \$48.3 million, or 0.89%, and 0.96%, respectively, at December 31, 2017 and \$48.2 million, or 0.90%, and 0.97%, respectively, at September 30, 2017. Nonperforming loans as a percentage of total loans decreased to 0.70% at September 30, 2018 from 0.78% at December 31, 2017 and 0.72% as of September 30, 2017. The allowance to nonperforming loan ratio was 127.35%, 114.34% and 124.16% as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively.

Below is an analysis of the consolidated allowance for credit losses for the nine months ended September 30, 2018 and 2017 and the year-ended December 31, 2017:

	September 30, 2018	September 30, 2017	December 31, 2017
	(dollars in thousands)		
Balance, beginning of period	\$48,298	\$ 50,185	\$ 50,185
Loans charged off:			
Commercial, financial, agricultural and other	3,536	5,776	6,634
Real estate construction	—	—	—
Residential real estate	1,006	980	1,287
Commercial real estate	2,411	95	340
Loans to individuals	3,336	3,202	4,248
Total loans charged off	10,289	10,053	12,509
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	702	3,820	3,901
Real estate construction	99	470	470
Residential real estate	297	304	371
Commercial real estate	123	210	278
Loans to individuals	484	406	515
Total recoveries	1,705	5,210	5,535
Net credit losses	8,584	4,843	6,974
Provision charged to expense	11,032	2,834	5,087
Balance, end of period	\$50,746	\$ 48,176	\$ 48,298

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Noninterest Income

The following table presents the components of noninterest income for the nine months ended September 30:

	2018	2017	\$ Change	% Change	
	(dollars in thousands)				
Noninterest Income:					
Trust income	\$6,014	\$5,275	\$739	14	%
Service charges on deposit accounts	13,418	13,858	(440)	(3))
Insurance and retail brokerage commissions	5,560	6,652	(1,092)	(16))
Income from bank owned life insurance	5,241	4,213	1,028	24	
Card-related interchange income	14,929	13,873	1,056	8	
Swap fee income	1,115	458	657	143	
Other income	5,125	5,674	(549)	(10))
Subtotal	51,402	50,003	1,399	3	
Net securities gains	8,102	695	7,407	1,066	
Gain on sale of mortgage loans	4,267	3,710	557	15	
Gain on sale of other loans and assets	3,548	1,267	2,281	180	
Derivatives mark to market	789	(49)	838	(1,710))
Total noninterest income	\$68,108	\$55,626	\$12,482	22	%

Noninterest income, excluding net securities gains, gain on sale of loans and other assets and the derivatives mark to market, increased \$1.4 million for the first nine months of 2018 compared to 2017. Income from bank owned life insurance increased \$1.0 million, primarily due to \$0.9 million death claim benefits recognized in the nine months ended September 30, 2018. Card-related interchange income increased \$1.1 million during the first nine months of 2018 compared to 2017 due to growth in customer accounts and transactions, including \$0.4 million which is attributable to the DCB acquisition. Trust income increased \$0.7 million, of which \$0.2 million can be attributed to accounts obtained in the DCB acquisition. Swap fee income increased \$0.7 million during the first nine months compared to the same period in the prior year due to an increase in the number of interest rate swaps entered into for our commercial loan customers. Insurance and retail brokerage commissions decreased by \$1.1 million as a result of \$1.7 million in producer commission expense that is netted against revenue in 2018 but was included as salary expense in 2017. This change is a result of Topic 606, the new revenue recognition standard that was adopted January 1, 2018.

Total noninterest income for the nine months ended September 30, 2018 increased \$12.5 million in comparison to the nine months ended September 30, 2017. The most significant change, other than the changes noted above, includes a \$7.4 million increase in net securities gains resulting from the redemption of two of our pooled trust preferred securities and the sale of the remaining pooled trust preferred portfolio, a \$2.3 million increase in the gain on sale of loans and other assets primarily due to a \$1.2 million gain recognized on the sale of a restructured commercial loan, and a \$0.8 million increase in the mark to market adjustment on interest rate swaps entered into for our commercial loan customers. This adjustment does not reflect a realized gain on the swaps, but rather relates to a change in fair value due to movements in corporate bond spreads and swap rates. Gain on sale of mortgage loans increased \$0.6 million as a result of continued growth in our mortgage lending area.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Noninterest Expense

The following table presents the components of noninterest expense for the nine months ended September 30:

	2018	2017	\$ Change	% Change
	(dollars in thousands)			
Noninterest Expense:				
Salaries and employee benefits	\$77,580	\$74,933	\$2,647	4 %
Net occupancy expense	12,932	11,597	1,335	12
Furniture and equipment expense	10,611	9,753	858	9
Data processing expense	7,764	6,659	1,105	17
Advertising and promotion expense	3,185	2,735	450	16
Pennsylvania shares tax expense	3,398	3,070	328	11
Intangible amortization	2,430	2,262	168	7
Collection and repossession expense	2,060	1,342	718	54
Other professional fees and services	3,000	3,355	(355)	(11)
FDIC insurance	1,590	2,466	(876)	(36)
Other operating expenses	17,662	17,212	450	3
Subtotal	142,212	135,384	6,828	5
Loss on sale or write-down of assets	875	1,486	(611)	(41)
Merger and acquisition related	1,634	10,412	(8,778)	(84)%
Litigation and operational losses	811	1,107	(296)	(27)%
Total noninterest expense	\$145,532	\$148,389	\$(2,857)	(2)%

Noninterest expense, excluding loss on sale or write-down of assets, litigation and operational losses and merger and acquisition related expenses, increased \$6.8 million, or 5%, for the nine months ended September 30, 2018 compared to the same period in 2017. Contributing to the higher expenses in 2018 is a \$2.6 million increase in salaries and employee benefits as a result of a higher number of full-time equivalent employees due to the DCB and Garfield acquisitions, annual merit increases and higher incentive compensation. The higher number of employees is primarily a result of the acquisition of DCB in April 2017 and Garfield in May 2018. These acquisitions also accounted for \$0.5 million of the \$1.3 million increase in net occupancy expense, \$0.1 million of the \$0.9 million increase in furniture and equipment expense and all of the \$0.2 million increase in intangible amortization. The most significant items contributing to the \$0.5 million increase in other operating expense includes a decrease of \$0.4 million in unfunded commitment reserve expense in 2018 as compared to 2017. Collection and repossession expense increased \$0.7 million due to costs related to several OREO properties.

Total noninterest expense decreased by \$2.9 million, or 2%, for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease is mainly due to a decrease of \$8.8 million in merger and acquisition expense.

Income Tax

The provision for income taxes decreased \$4.2 million for the nine months ended September 30, 2018, compared to the corresponding period in 2017. Despite a \$25.1 million increase in the level of income before taxes, the lower provision for income taxes can be attributed to the Tax Cuts and Jobs Act passed in December 2017, which decreased the statutory Federal tax rate from 35% to 21%.

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income, for the nine months ended September 30, 2018 and 2017.

We generate an annual effective tax rate that is less than the statutory rate of 21% due to benefits resulting from tax-exempt interest, income from bank-owned life insurance and tax benefits associated with low income housing tax credits, all of which are relatively consistent regardless of the level of pretax income. Additionally, the nine months ended September 30, 2018, included a \$0.6 million further adjustment to the deferred tax asset adjustment initially recorded in the fourth quarter of 2017 due to the reduction in the statutory tax rate. These provided for an annual effective tax rate of 19.1% and 30.5% for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, our deferred tax assets totaled \$26.5 million. Based on our evaluation, we determined that it is more likely than not that all of these assets will be realized. As a result, a valuation allowance against these assets was not

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

recorded. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Net Income

For the three months ended September 30, 2018, First Commonwealth had net income of \$25.1 million, or \$0.25 diluted earnings per share, compared to net income of \$21.3 million, or \$0.22 diluted earnings per share, in the three months ended September 30, 2017. Growth in net income is primarily the result of an increase in net interest income offset by increases in noninterest expense and the provision for credit losses. Also contributing to the increase in net income is a decrease in the statutory Federal tax rate from 35% in 2017 to 21% in 2018.

For the three months ended September 30, 2018, the Company's return on average equity was 10.28% and its return on average assets was 1.30%, compared to 9.50% and 1.14%, respectively, for the three months ended September 30, 2017.

Net Interest Income

Net interest income on a fully taxable equivalent basis was \$64.3 million in the third quarter of 2018, compared to \$60.7 million for the same period in 2017. This increase was due to both growth in average interest earning assets of \$282.3 million and a 34 basis point increase in the yield on interest earning assets. Net interest income comprises a majority of our operating revenue (net interest income before provision expense plus noninterest income), at 76% and 75% for the three months ended September 30, 2018 and 2017, respectively.

The net interest margin, on a fully taxable equivalent basis, was 3.67% and 3.61% for the three months ended September 30, 2018 and September 30, 2017, respectively. The 6 basis point increase in the net interest margin is attributable to both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

The taxable equivalent yield on interest-earning assets was 4.30% for the three months ended September 30, 2018, an increase of 34 basis points compared to the 3.96% yield for the same period in 2017. This increase is largely due to an increase in the loan portfolio yield, which improved by 38 basis points when compared to the three months ended September 30, 2017. Contributing to this increase was the yield on our adjustable and variable rate commercial loan portfolios, which increased 68 basis points largely due to the Federal Reserve increasing short term interest rates 150 basis points since December 2016. The yield on the investment portfolio increased 11 basis points in comparison to the prior year. This increase can be attributed to investment security runoff being replaced with higher yielding investments. Investment portfolio purchases during the three months ended September 30, 2018 have been primarily in mortgage-related assets with approximate durations of 30-64 months. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities at higher rates if interest rates rise. The cost of interest-bearing liabilities increased to 0.84% for the three months ended September 30, 2018, from 0.46% for the same period in 2017, primarily due to a change in the mix and an increase in the cost of short-term borrowings and long-term debt. Deposits acquired in our recent acquisitions, approximately \$50 million in proceeds from the issuance of subordinated debt as well as organic growth in consumer checking and savings deposits contributed to a decline in average short-term borrowings of \$260.3 million for the three months ended September 30, 2018 compared to the same period in 2017. Higher market interest rates resulted in the cost of short-term borrowings increasing 65 basis points. The issuance of \$100 million in subordinated debt in May 2018 had a 7 basis point impact on the cost of interest-bearing liabilities for the three months ended September 30, 2018.

For the three months ended September 30, 2018, changes in interest rates positively impacted net interest income by \$1.3 million when compared with the same period in 2017. The higher yield on interest-earning assets positively

impacted net interest income by \$5.9 million, while the increase in the cost of interest-bearing liabilities negatively impacted net interest income by \$4.6 million.

Changes in the volume of interest-earning assets and interest-bearing liabilities positively impacted net interest income by \$2.3 million in the three months ended September 30, 2018, as compared to the same period in 2017. Higher levels of interest-earning assets resulted in an increase of \$3.0 million in interest income, and changes in the volume and mix of interest-bearing liabilities increased interest expense by \$0.7 million, primarily as the result of an increase in long-term debt offset by a decline

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

in short-term borrowings. Average earning assets for the three months ended September 30, 2018 increased \$282.3 million, or 4.2%, compared to the same period in 2017. Average loans for the comparable period increased \$258.6 million, or 4.8%.

Net interest income also benefited from a \$140.4 million increase in average net free funds at September 30, 2018 as compared to September 30, 2017. 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 components of the increase in net free funds was an increase of \$54.9 million, or 3.9%, in noninterest-bearing demand deposit average balances and an increase of \$81.6 million, or 9.2%, in average shareholders' equity. The increase in deposits is largely impacted by deposits acquired from the acquisition of Garfield in May of 2018. Additionally, average time deposits for the three months ended September 30, 2018 increased by \$224.0 million at higher costs compared to the comparable period in 2017, decreasing net interest income by \$1.4 million. Increases in market interest rates negatively impacted interest expense by \$4.6 million.

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 three months ended September 30:

	2018	2017
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	\$74,873	\$65,411
Adjustment to fully taxable equivalent basis	498	1,104
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	75,371	66,515
Interest expense	11,060	5,848
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	\$64,311	\$60,667

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

	2018			2017		
	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	\$2,188	\$ 39	7.07%	\$8,520	\$ 30	1.40%
Tax-free investment securities	67,669	520	3.05	68,191	631	3.67
Taxable investment securities	1,219,321	8,319	2.71	1,188,705	7,635	2.55
Loans, net of unearned income (b)(c)	5,657,390	66,493	4.66	5,398,815	58,219	4.28
Total interest-earning assets	6,946,568	75,371	4.30	6,664,231	66,515	3.96
Noninterest-earning assets:						
Cash	95,666			94,880		
Allowance for credit losses	(52,933)			(50,478)		
Other assets	672,728			668,740		
Total noninterest-earning assets	715,461			713,142		
Total Assets	\$7,662,029			\$7,377,373		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$1,221,780	\$ 1,352	0.44%	\$1,156,313	\$ 482	0.17%
Savings deposits (d)	2,435,659	2,307	0.38	2,420,052	1,103	0.18
Time deposits	786,912	2,347	1.18	562,868	906	0.64
Short-term borrowings	569,666	2,603	1.81	829,954	2,427	1.16
Long-term debt	185,401	2,451	5.24	88,256	930	4.18
Total interest-bearing liabilities	5,199,418	11,060	0.84	5,057,443	5,848	0.46
Noninterest-bearing liabilities and shareholders' equity:						
Noninterest-bearing demand deposits (d)	1,447,948			1,393,024		
Other liabilities	44,261			38,125		
Shareholders' equity	970,402			888,781		
Total noninterest-bearing funding sources	2,462,611			2,319,930		
Total Liabilities and Shareholders' Equity	\$7,662,029			\$7,377,373		
Net Interest Income and Net Yield on Interest-Earning Assets						
		\$ 64,311	3.67%		\$ 60,667	3.61%

Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 21% federal (a) income tax statutory rate for the three months ended September 30, 2018 and the 35% federal income tax statutory rate for the three months ended September 30, 2017.

(b) Loan balances include held for sale and nonaccrual loans. Income on nonaccrual loans is accounted for on the cash basis.

(c) Loan income includes loan fees earned.

(d) Average balances do not include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits, which were made for regulatory purposes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three months ended September 30, 2018 compared with September 30, 2017:

	Analysis of Year-to-Year Changes in Net Interest Income		
	Total Change	Change Due To Volume	Change Due To Rate (a)
	(dollars in thousands)		
Interest-earning assets:			
Interest-bearing deposits with banks	\$9	\$ (22	) \$ 31
Tax-free investment securities	(111	) (5	) (106
Taxable investment securities	684	197	487
Loans	8,274	2,789	5,485
Total interest income (b)	8,856	2,959	5,897
Interest-bearing liabilities:			
Interest-bearing demand deposits	870	28	842
Savings deposits	1,204	7	1,197
Time deposits	1,441	361	1,080
Short-term borrowings	176	(761	) 937
Long-term debt	1,521	1,024	497
Total interest expense	5,212	659	4,553
Net interest income	\$3,644	\$ 2,300	\$ 1,344

(a) Changes in interest income or expense not arising solely as a result of volume or rate variances are allocated to rate variances.

(b) Changes in interest income have been computed on a fully taxable equivalent basis using the 21% federal income tax statutory rate.

Provision for Credit Losses

The provision for credit losses is determined based on management's estimates of the appropriate level of the allowance for credit losses needed for probable losses inherent in the loan portfolio, after giving consideration to charge-offs and recoveries for the period. The provision for credit losses is an amount added to the allowance, against which credit losses are charged.

The table below provides a breakout of the provision for credit losses by loan category for the three months ended September 30:

	2018		2017		
	Dollars	Percentage	Dollars	Percentage	
	(dollars in thousands)				
Commercial, financial, agricultural and other	\$(580)(20)%	\$(10,031)(826)%
Real estate construction	238	8	200	16	
Residential real estate	200	7	1,054	87	
Commercial real estate	1,898	64	9,985	823	
Loans to individuals	1,205	41	6	—	
Total	\$2,961	100	%	\$1,214	100

The provision for credit losses for the three months ended September 30, 2018 increased in comparison to the three months ended September 30, 2017 by \$1.7 million. The increase in the provision expense related to commercial real estate loans is primarily due to an increase of \$1.2 million in specific reserves for two commercial real estate loans. The increase related to loans to individuals is primarily due to net charge-offs of \$0.5 million in indirect auto loans and \$0.3 million in charge-offs related to personal lines of credit loans. The decrease in provision expense related to commercial, financial, agricultural and other loans can be attributed to a \$0.9 million decrease in specific reserves as a result of an updated collateral valuation for one borrower.

The 2017 provision expense is primarily due to net charge-offs recognized during the quarter. The level of provision expense for the commercial, financial, agricultural and other category was impacted by a decline in outstanding balances, while growth in commercial real estate loans contributed to an increase in provision expense for that loan type. Additionally, the provision expense for both of these categories was impacted by the Company's periodic assessment of the allowance for loan loss

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

methodology, the current lending environment, and associated risks for each portfolio which resulted in changes to certain qualitative factors, such as collateral recovery rates and vacancy rates.

Below is an analysis of the consolidated allowance for credit losses for the three months ended September 30, 2018 and 2017 and the year-ended December 31, 2017:

	September 30, 2018	September 30, 2017	December 31, 2017
	(dollars in thousands)		
Balance, beginning of period	\$51,314	\$ 48,067	\$ 50,185
Loans charged off:			
Commercial, financial, agricultural and other	2,582	499	6,634
Real estate construction	—	—	—
Residential real estate	277	361	1,287
Commercial real estate	—	35	340
Loans to individuals	1,080	1,024	4,248
Total loans charged off	3,939	1,919	12,509
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	66	184	3,901
Real estate construction	92	373	470
Residential real estate	51	85	371
Commercial real estate	36	60	278
Loans to individuals	165	112	515
Total recoveries	410	814	5,535
Net credit losses	3,529	1,105	6,974
Provision charged to expense	2,961	1,214	5,087
Balance, end of period	\$50,746	\$ 48,176	\$ 48,298

Noninterest Income

The following table presents the components of noninterest income for the three months ended September 30:

	2018	2017	\$ Change	% Change
	(dollars in thousands)			
Noninterest Income:				
Trust income	\$2,206	\$2,147	\$ 59	3 %
Service charges on deposit accounts	4,589	4,803	(214)	(4)
Insurance and retail brokerage commissions	1,872	2,128	(256)	(12)
Income from bank owned life insurance	1,579	1,472	107	7
Card related interchange income	5,044	4,780	264	6
Swap fee income	528	217	311	143
Other income	1,754	2,244	(490)	(22)
Subtotal	17,572	17,791	(219)	(1)
Net securities gains	—	92	(92)	(100)
Gain on sale of mortgage loans	1,542	1,418	124	9
Gain on sale of other loans and assets	643	503	140	28
Derivatives mark to market	—	(14)	14	(100)
Total noninterest income	\$19,757	\$19,790	\$ (33)	— %

Noninterest income, excluding net securities gains, gain on sale of loans and other assets and the derivatives mark to market, decreased \$0.2 million for the third quarter of 2018 compared to 2017. Income from bank owned life insurance increased \$0.1 million due to death claims received during the third quarter of 2018. Offsetting this increase was a \$0.3 million decrease in insurance and retail brokerage commissions as a result of \$0.7 million in producer commission expense which is netted against

62

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

revenue in 2018 but was included as salary expense in 2017. This change is a result of Topic 606, the new revenue recognition standard which was adopted January 1, 2018. Total noninterest income for the third quarter of 2018 remained flat in comparison to the third quarter of 2017.

Noninterest Expense

The following table presents the components of noninterest expense for the three months ended September 30:

	2018	2017	\$ Change	% Change	
	(dollars in thousands)				
Noninterest Expense:					
Salaries and employee benefits	\$26,553	\$26,169	\$ 384	1	%
Net occupancy expense	4,341	3,715	626	17	
Furniture and equipment expense	3,424	3,342	82	2	
Data processing expense	2,853	2,229	624	28	
Advertising and promotion expense	1,200	941	259	28	
Pennsylvania shares tax expense	1,248	1,093	155	14	
Intangible amortization	817	844	(27)	(3))
Collection and repossession expense	630	402	228	57	
Other professional fees and services	962	1,300	(338)	(26))
FDIC insurance	217	696	(479)	(69))
Other operating expenses	6,645	5,934	711	12	
Subtotal	48,890	46,665	2,225	5	
Loss on sale or write-down of assets	181	167	14	8	
Merger and acquisition related	24	(69)	93	(135))
Litigation and operational losses	435	598	(163)	(27))
Total noninterest expense	\$49,530	\$47,361	\$ 2,169	5	%

Noninterest expense, excluding loss on sale or write-down of assets, litigation and operational losses and merger and acquisition related expenses, increased \$2.2 million, or 5%, for the three months ended September 30, 2018 compared to the same period in 2017. Contributing to the higher expenses in 2018 is a \$0.4 million increase in salaries and employee benefits resulting from a higher number of full-time equivalent employees due to the Garfield acquisitions, annual merit increases and higher incentive compensation. The Garfield acquisition also accounted for the \$0.6 million increase in net occupancy expense and the \$0.1 million increase in furniture and equipment expense. The most significant item contributing to the \$0.7 million increase in other operating expense is a \$0.3 million increase in expense related to interest rate lock derivatives on mortgage loans held for sale in 2018 as compared to 2017.

Total noninterest expense increased by \$2.2 million, or 5%, for the three months ended September 30, 2018 compared to the same period in 2017, primarily due to an increase of \$0.1 million in merger and acquisition expense.

Income Tax

The provision for income taxes decreased \$3.6 million for the three months ended September 30, 2018, compared to the corresponding period in 2017. The lower provision can be attributed to the impact of the Tax Cuts and Jobs Act passed in December 2017, which decreased the statutory Federal tax rate from 35% to 21%. Partially offsetting the change in the federal tax rate was a \$0.3 million increase in the level of income before taxes.

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income, for the three months ended September 30, 2018 and 2017.

We generate an annual effective tax rate that is less than the statutory rate of 21% due to benefits resulting from tax-exempt interest, income from bank-owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. These provided for an annual effective tax rate of 19.1% and 30.8% for the three months ended September 30, 2018 and 2017, respectively.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Liquidity

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets, including investments. During the first nine months of 2018, \$98.1 million in liquidity was provided from the net proceeds of a \$100 million subordinated debt note issued by First Commonwealth Bank, the Company's banking subsidiary.

Additionally, the sale, maturity and redemption of investment securities provided \$118.7 million in liquidity. This liquidity was used to pay down short-term borrowings by \$119.7 million and also provided funds to originate loans, purchase investment securities and fund depositor withdrawals.

We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank of Cleveland (“FRB”) and access to certificates of deposit through brokers.

We participate in the Certificate of Deposit Account Registry Services (“CDARS”) program as part of an Asset/Liability Committee (“ALCO”) strategy to increase and diversify funding sources. As of September 30, 2018, our maximum borrowing capacity under this program was \$1.2 billion and as of that date there was \$6.9 million outstanding with an average weighted rate of 0.92% and an average original term of 295 days. These deposits are part of a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks.

An additional source of liquidity is the FRB Borrower-in-Custody of Collateral program, which enables us to pledge certain loans that are not being used as collateral at the FHLB as collateral for borrowings at the FRB. At September 30, 2018, the borrowing capacity under this program totaled \$806.6 million and there were no amounts outstanding.

As of September 30, 2018, our maximum borrowing capacity at the FHLB of Pittsburgh was \$1.6 billion and as of that date amounts used against this capacity included \$0.4 billion in outstanding borrowings and no outstanding letters of credit.

We also have available unused federal funds lines with five correspondent banks. These lines have an aggregate commitment of \$195.0 million with a \$6.5 million outstanding balance as of September 30, 2018. In addition, we have available unused repo lines with three correspondent banks. These lines have an aggregate commitment of \$509.3 million with no outstanding balance as of September 30, 2018.

First Commonwealth Financial Corporation has an unsecured \$15.0 million line of credit with another financial institution. As of September 30, 2018, there are no amounts outstanding on this line.

First Commonwealth’s long-term liquidity source is its core deposit base. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is influenced by factors outside of management’s control, such as the level of short-term and long-term market interest rates and yields offered on competing investments, such as money market mutual funds. The following table shows a breakdown of the components of First Commonwealth’s deposits:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Noninterest-bearing demand deposits ^(a)	\$1,451,284	\$1,416,771
Interest-bearing demand deposits ^(a)	181,504	187,281
Savings deposits ^(a)	3,453,461	3,361,840
Time deposits	808,894	614,813
Total	\$5,895,143	\$5,580,705

^(a) Balances include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits, which were made for regulatory purposes.

During the first nine months of 2018, total deposits increased \$314.4 million, of which \$141.3 million were obtained as part of the Garfield acquisition. Interest bearing demand and savings deposits increased \$85.8 million, noninterest-bearing demand deposits increased \$34.5 million and time deposits increased \$194.1 million. The increase in time deposits is the result of an increase in core certificates of deposit of \$202.1 million offset by a decline in CDARs deposits of \$8.0 million.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Market Risk

The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate-sensitive assets to rate-sensitive liabilities repricing within a one-year period was 0.71 and 0.73 at September 30, 2018 and December 31, 2017, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months. The level of First Commonwealth's ratio is largely driven by the modeling of interest-bearing non-maturity deposits, which are included in the analysis as repricing within one year.

Gap analysis has limitations due to the static nature of the model that holds volumes and consumer behaviors constant in all economic and interest rate scenarios. A lower level of rate sensitive assets to rate sensitive liabilities repricing in one year could indicate reduced net interest income in a rising interest rate scenario, and conversely, increased net interest income in a declining interest rate scenario. However, the gap analysis incorporates only the level of interest-earning assets and interest-bearing liabilities and not the sensitivity each has to changes in interest rates. The impact of the sensitivity to changes in interest rates is provided in the table below the gap analysis.

The following is the gap analysis as of September 30, 2018 and December 31, 2017:

	September 30, 2018				Over 1 Year Through 5 Years	Over 5 Years	
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days			
	(dollars in thousands)						
Loans	\$2,603,145	\$215,192	\$343,984	\$3,162,321	\$1,852,000	\$624,597	
Investments	69,608	48,821	91,949	210,378	587,607	493,491	
Other interest-earning assets	3,022	—	—	3,022	—	—	
Total interest-sensitive assets (ISA)	2,675,775	264,013	435,933	3,375,721	2,439,607	1,118,088	
Certificates of deposit	105,061	112,540	228,624	446,225	359,785	2,884	
Other deposits	3,634,965	—	—	3,634,965	—	—	
Borrowings	660,183	216	440	660,839	54,031	58,202	
Total interest-sensitive liabilities (ISL)	4,400,209	112,756	229,064	4,742,029	413,816	61,086	
Gap	\$(1,724,434)	\$151,257	\$206,869	\$(1,366,308)	\$2,025,791	\$1,057,002	
ISA/ISL	0.61	2.34	1.90	0.71	5.90	18.30	
Gap/Total assets	22.44	% 1.97	% 2.69	% 17.78	% 26.36	% 13.75	%
	December 31, 2017						
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Over 1 Year Through 5 Years	Over 5 Years	
	(dollars in thousands)						
Loans	\$2,662,906	\$214,139	\$359,790	\$3,236,835	\$1,633,236	\$521,478	
Investments	79,484	45,983	84,001	209,468	525,391	434,919	
Other interest-earning assets	8,668	—	—	8,668	—	—	
Total interest-sensitive assets (ISA)	2,751,058	260,122	443,791	3,454,971	2,158,627	956,397	

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Certificates of deposit	139,920	71,178	165,083	376,181	235,037	3,595	
Other deposits	3,549,121	—	—	3,549,121	—	—	
Borrowings	779,875	244	495	780,614	4,468	10,302	
Total interest-sensitive liabilities (ISL)	4,468,916	71,422	165,578	4,705,916	239,505	13,897	
Gap	\$(1,717,858)	\$188,700	\$278,213	\$(1,250,945)	\$1,919,122	\$942,500	
ISA/ISL	0.62	3.64	2.68	0.73	9.01	68.82	
Gap/Total assets	23.50	% 2.58	% 3.81	% 17.12	% 26.26	% 12.90	%

65

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

The following table presents an analysis of the potential sensitivity of our annual net interest income to gradual changes in interest rates over a 12 month time frame as compared with net interest income if rates remained unchanged and there are no changes in balance sheet categories.

	Net interest income change (12 months) for basis point movements of:			
	-200	-100	+100	+200
	(dollars in thousands)			
September 30, 2018 (\$)	\$(18,232)	\$(7,161)	\$4,686	\$9,509
September 30, 2018 (%)	(6.78)%	(2.66)%	1.74%	3.54%
December 31, 2017 (\$)	\$(15,810)	\$(6,181)	\$5,856	\$11,315
December 31, 2017 (%)	(6.51)%	(2.55)%	2.41%	4.66%

The following table represents the potential sensitivity of our annual net interest income to immediate changes in interest rates versus if rates remained unchanged and there are no changes in balance sheet categories.

	Net interest income change (12 months) for basis point movements of:			
	-200	-100	+100	+200
	(dollars in thousands)			
September 30, 2018 (\$)	\$(39,065)	\$(14,008)	\$9,373	\$18,237
September 30, 2018 (%)	(14.54)%	(5.21)%	3.49%	6.79%
December 31, 2017 (\$)	\$(33,734)	\$(16,356)	\$14,427	\$27,815
December 31, 2017 (%)	(13.90)%	(6.74)%	5.94%	11.46%

The analysis and model used to quantify the sensitivity of our net interest income becomes less meaningful in a decreasing 200 basis point scenario given the current interest rate environment. Results of the 100 and 200 basis point interest rate decline scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1%, with an assumed floor of zero in the model. In the nine months ended September 30, 2018 and 2017, the cost of our interest-bearing liabilities averaged 0.71% and 0.42%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 4.25% and 3.87%, respectively.

In 2015, the Company entered into a cash flow interest rate swap in which we extended the duration of \$65.0 million of the \$1.3 billion LIBOR based loans in our loan portfolio at that time into fixed interest rates for a period of four years. Please refer to Note 12 "Derivatives," for additional information on interest rate swaps.

Asset/liability models require that certain assumptions be made, such as prepayment rates on earning assets and the impact of pricing on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon our experience, business plans and published industry experience. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will approximate actual results.

Credit Risk

First Commonwealth maintains an allowance for credit losses at a level deemed sufficient for losses inherent in the loan portfolio at the date of each statement of financial condition. Management reviews the adequacy of the allowance on a quarterly basis to ensure that the provision for credit losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses.

First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual impaired loans with a balance greater than

\$0.1 million, loss experience trends and other relevant factors.

First Commonwealth also maintains a reserve for unfunded loan commitments and letters of credit based upon credit risk and probability of funding. The reserve totaled \$5.2 million at September 30, 2018 and is classified in "Other liabilities" on the Condensed Consolidated Statements of Financial Condition.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructurings. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources. In the first nine months of 2018, 42 loans totaling \$10.6 million were identified as troubled debt restructurings.

The balance of troubled debt restructured loans decreased \$0.9 million from December 31, 2017. Changes during the first nine months of 2018 included the addition of an \$8.3 million loan and the sale of a \$5.4 million loan in the commercial, financial, agricultural and other category. Additionally, one commercial real estate loan for \$0.9 million paid off. Please refer to Note 9, "Loans and Allowance for Credit Losses," for additional information on troubled debt restructurings.

We discontinue interest accruals on a loan when, based on current information and events, it is probable that we will be unable to fully collect principal or interest due according to the contractual terms of the loan. A loan is also placed on nonaccrual status when, based on regulatory definitions, the loan is maintained on a "cash basis" due to the weakened financial condition of the borrower. Generally, loans 90 days or more past due are placed on nonaccrual status, except for consumer loans, which are placed on nonaccrual status at 150 days past due.

Nonperforming loans are closely monitored on an ongoing basis as part of our loan review and work-out process. The probable risk of loss on these loans is evaluated by comparing the loan balance to the fair value of any underlying collateral or the present value of projected future cash flows. Losses or a specifically assigned allowance for loan losses are recognized where appropriate.

Nonperforming loans, including loans held for sale, decreased \$2.4 million to \$39.8 million at September 30, 2018 compared to \$42.2 million at December 31, 2017. During the nine months ended September 30, 2018, \$29.2 million of loans were moved to nonaccrual. Offsetting these additions is the aforementioned sale of a \$5.4 million loan, the sale of a \$3.8 million nonaccrual loan, the payoff of a \$5.2 million nonaccrual loan, a \$4.3 million paydown of a nonaccrual loan, the payoff of a \$1.7 million accruing troubled debt restructured loan and the payoff of a \$0.5 million nonaccrual troubled debt restructured loan.

The allowance for credit losses as a percentage of nonperforming loans was 127.35% as of September 30, 2018, compared to 114.34% at December 31, 2017, and 124.16% at September 30, 2017. The amount of specific reserves included in the allowance for nonperforming loans was determined by using fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific reserves of \$5.4 million and general reserves of \$45.4 million as of September 30, 2018. Specific reserves increased \$1.6 million from December 31, 2017, and \$3.2 million from September 30, 2017 primarily due to the addition of the two nonaccrual relationships noted above. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at September 30, 2018.

Criticized loans totaled \$141.6 million at September 30, 2018 and represented 2.5% of the loan portfolio. The level of criticized loans increased as of September 30, 2018 when compared to December 31, 2017, by \$17.2 million, or 13.8%. This increase can be attributed to the downgrade of two commercial real estate loans totaling \$22.3 million.

Classified loans totaled \$50.1 million at September 30, 2018 compared to \$73.0 million at December 31, 2017, a decrease of \$22.9 million, or 31.4%. This decrease is primarily the result of the aforementioned changes in nonperforming loans. Delinquency on accruing loans for the same period decreased \$0.9 million, or 6.8%, the majority of which are commercial, financial, agricultural and other loans and residential real estate loans.

The allowance for credit losses was \$50.7 million at September 30, 2018, or 0.90% of total loans outstanding, compared to 0.89% reported at December 31, 2017, and 0.90% at September 30, 2017. General reserves, or the portion of the allowance related to loans that were not specifically evaluated for impairment, as a percentage of non-impaired loans were 0.81% at September 30, 2018 compared to 0.83% at December 31, 2017 and 0.86% at

September 30, 2017. General reserves as a percentage of non-impaired originated loans were 0.89% at September 30, 2018 compared to 0.90% at December 31, 2017 and 0.94% at September 30, 2017.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

The following table provides information related to nonperforming assets, the allowance for credit losses and other credit-related measures:

	September 30, 2018		2017		December 31, 2017	
	(dollars in thousands)					
Nonperforming Loans:						
Loans on nonaccrual basis	\$ 17,921		\$ 14,943		\$ 19,455	
Loans held for sale on a nonaccrual basis	—		—		—	
Troubled debt restructured loans on nonaccrual basis	13,876		11,408		11,222	
Troubled debt restructured loans on accrual basis	8,052		12,451		11,563	
Total nonperforming loans	\$ 39,849		\$ 38,802		\$ 42,240	
Loans past due 30 to 90 days and still accruing	\$ 10,702		\$ 8,580		\$ 11,401	
Loans past due in excess of 90 days and still accruing	\$ 1,647		\$ 1,332		\$ 1,854	
Other real estate owned	\$ 3,874		\$ 5,701		\$ 2,765	
Loans held for sale at end of period	\$ 8,287		\$ 17,100		\$ 14,850	
Portfolio loans outstanding at end of period	\$ 5,662,782		\$ 5,375,847		\$ 5,407,376	
Average loans outstanding	\$ 5,541,600	(a)	\$ 5,226,320	(a)	\$ 5,278,511	(b)
Nonperforming loans as a percentage of total loans	0.70	%	0.72	%	0.78	%
Provision for credit losses	\$ 11,032	(a)	\$ 2,834	(a)	\$ 5,087	(b)
Allowance for credit losses	\$ 50,746		\$ 48,176		\$ 48,298	
Net charge-offs	\$ 8,584	(a)	\$ 4,843	(a)	\$ 6,974	(b)
Net charge-offs as a percentage of average loans outstanding (annualized)	0.21	%	0.12	%	0.13	%
Provision for credit losses as a percentage of net charge-offs	128.52	% (a)	58.52	% (a)	72.94	% (b)
Allowance for credit losses as a percentage of end-of-period loans outstanding (c)	0.90	%	0.90	%	0.89	%
Allowance for credit losses as a percentage of end-of-period originated loans outstanding	0.99	%	0.97	%	0.96	%
Allowance for credit losses as a percentage of nonperforming loans (d)	127.35	%	124.16	%	114.34	%

(a) For the nine-month period ended.

(b) For the twelve-month period ended.

(c) Does not include loans held for sale.

(d) Does not include nonperforming loans held for sale.

The following tables show the outstanding balances of our loan portfolio and the breakdown of net charge-offs and nonperforming loans, excluding loans held for sale, by loan type as of and for the periods presented:

	September 30, 2018		December 31, 2017	
	Amount	%	Amount	%
	(dollars in thousands)			
Commercial, financial, agricultural and other	\$ 1,116,204	20 %	\$ 1,163,383	22 %
Real estate construction	298,395	5	248,868	5

Residential real estate	1,533,338	27	1,426,370	26
Commercial real estate	2,136,431	38	2,019,096	37
Loans to individuals	578,414	10	549,659	10
Total loans and leases net of unearned income	\$5,662,782	100%	\$5,407,376	100%

During the nine months ended September 30, 2018, loans increased \$255.4 million, or 4.7%, compared to balances outstanding at December 31, 2017. Loans acquired as part of the Garfield acquisition totaled \$184.5 million. All loan categories reflect growth for the nine months ended September 30, 2018, except for the commercial, financial, agricultural and other category where new volumes were offset by several large payoffs.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

As indicated in the table below, commercial, financial, agricultural and other, residential real estate and commercial real estate loans represented a significant portion of the nonperforming loans as of September 30, 2018. See discussions related to the provision for credit losses and loans for more information.

	For the Nine Months Ended September 30, 2018			As of September 30, 2018		
	Net Charge- offs	% of Total Net Charge-offs	Net Charge- offs as a % of Average Loans (annualized)	Nonperforming Loans	% of Total Nonperforming Loans	Nonperforming Loans as a % of Total Loans
	(dollars in thousands)					
Commercial, financial, agricultural and other	\$2,834	33.01 %	0.07 %	\$13,248	33.24 %	0.23 %
Real estate construction	(99)	(1.15)	—	—	—	—
Residential real estate	709	8.27	0.02	13,334	33.46	0.23
Commercial real estate	2,288	26.65	0.05	12,965	32.54	0.23
Loans to individuals	2,852	33.22	0.07	302	0.76	0.01
Total loans, net of unearned income	\$8,584	100.00 %	0.21 %	\$39,849	100.00 %	0.70 %

Net charge-offs for the nine months ended September 30, 2018 totaled \$8.6 million, compared to \$4.8 million for the nine months ended September 30, 2017. The most significant charge-offs during the nine months ended September 30, 2018 included a \$4.3 million charge-off and a \$4.2 million charge-off for two commercial customers and \$2.9 million in net charge-offs related to loans to individuals, primarily indirect auto loans and personal credit lines. During the nine months ended September 30, 2017, the most significant charge-offs included partial charge-offs on loans for two commercial borrowers of \$1.9 million and \$1.5 million. Offsetting those charge-offs were recoveries of \$3.5 million on two commercial and industrial loans.

Capital Resources

At September 30, 2018, shareholders' equity was \$972.9 million, an increase of \$84.8 million from December 31, 2017. The increase was primarily the result \$80.5 million in net income and \$44.4 million in treasury stock sales, of which \$41.6 million related to shares issued in relation to the Garfield acquisition. These increases were partially offset by \$25.9 million of dividends paid to shareholders, a decrease of \$13.1 million in the fair value of available for sale investments and \$1.1 million of common stock repurchases. Cash dividends declared per common share were \$0.26 and \$0.24 for the nine months ended September 30, 2018 and 2017, respectively.

First Commonwealth and First Commonwealth Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on First Commonwealth's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, First Commonwealth and First Commonwealth Bank must meet specific capital guidelines that involve quantitative measures of First Commonwealth's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. First Commonwealth's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

First Commonwealth maintains capital to absorb unexpected losses. In order to provide assurance that our capital levels are adequate for our risk exposure, we test our capital position under several stress scenarios on an annual basis. This analysis is reviewed by our Board of Directors. Our most recent capital stress test was completed in September 2017.

Effective January 1, 2015, the Company became subject to the new regulatory risk-based capital rules adopted by the federal banking agencies implementing Basel III. The most significant changes include higher minimum capital

requirements, as the minimum Tier I capital ratio increased from 4.0% to 6.0% and a new common equity Tier I capital ratio was established with a minimum level of 4.5%. Additionally, the new rules improve the quality of capital by providing stricter eligibility criteria for regulatory capital instruments and provide for a phase-in, beginning January 1, 2016, of a capital conservation buffer of 2.5% of risk-weighted assets. This buffer provides a requirement to hold common equity Tier 1 capital above the minimum risk-based capital requirements, resulting in an effective common equity Tier I risk-weighted asset minimum ratio of 7% on a fully phased-in basis.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)
 FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

The Basel III Rules also permit banking organizations with less than \$15.0 billion in assets to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Company elected to retain this treatment, which reduces the volatility of regulatory capital levels.

During the second quarter of 2018, First Commonwealth Bank, the Company's banking subsidiary, issued \$100 million in subordinated debt, which under the regulatory rules qualifies as Tier II capital. This subordinated debt issuance increased the total risk-based capital ratio by 160 basis points.

As of September 30, 2018, First Commonwealth and First Commonwealth Bank met all capital adequacy requirements to which they are subject and was considered well-capitalized under the regulatory rules, all on a fully phased-in basis. To be considered well capitalized, the Company must maintain minimum Total risk-based capital, Tier I risk-based capital, Tier I leverage ratio and Common equity tier I risk-based capital as set forth in the table below:

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(dollars in thousands)								
Total Capital to Risk Weighted Assets								
First Commonwealth Financial Corporation	\$927,584	15.08%	\$607,498	9.875%	\$645,947	10.50%	\$615,188	10.00%
First Commonwealth Bank	897,626	14.62	606,254	9.875	644,624	10.50	613,928	10.00
Tier I Capital to Risk Weighted Assets								
First Commonwealth Financial Corporation	\$773,533	12.57%	\$484,460	7.875%	\$522,910	8.50%	\$492,150	8.00%
First Commonwealth Bank	743,575	12.11	483,468	7.875	521,839	8.50	491,142	8.00
Tier I Capital to Average Assets								
First Commonwealth Financial Corporation	\$773,533	10.46%	\$295,748	4.000%	\$295,748	4.00%	\$369,685	5.00%
First Commonwealth Bank	743,575	10.08	295,208	4.000	295,208	4.00	369,010	5.00
Common Equity Tier I to Risk Weighted Assets								
First Commonwealth Financial Corporation	\$703,533	11.44%	\$392,182	6.375%	\$430,631	7.00%	\$399,872	6.50%
First Commonwealth Bank	743,575	12.11	391,379	6.375	429,750	7.00	399,053	6.50

On October 23, 2018, First Commonwealth Financial Corporation declared a quarterly dividend of \$0.09 per share payable on November 16, 2018 to shareholders of record as of November 2, 2018. The timing and amount of future dividends are at the discretion of First Commonwealth's Board of Directors based upon, among other factors, capital levels, asset quality, liquidity and current and projected earnings.

On October 23, 2018, a share repurchase program was authorized by the Board of Directors for up to \$25.0 million in shares of the Company's common stock. Depending on market conditions and other factors, repurchases may be made at any time or from time to time, without prior notice. First Commonwealth may suspend or discontinue the program at any time.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

Information appearing in Item 2 of this report under the caption “Market Risk” is incorporated by reference in response to this item.

ITEM 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms of the Securities and Exchange Commission.

In addition, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal controls over financial reporting to determine whether any changes occurred during the current fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. As part of this evaluation, a change was identified in connection with the preparation of the allowance for credit losses estimate. In the third quarter of 2018, the Company transitioned from a spreadsheet based calculation of the allowance for credit losses to a calculation completed utilizing a third party software. As part of this transition, internal controls related to data import, access controls, change management and documentation were added or updated to reflect the new environment.

Table of Contents

PART II – OTHER INFORMATION

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. LEGAL PROCEEDINGS

The information required by this item is set forth in Part I, Item 1, Note 6, "Commitments and Contingent Liabilities," which is incorporated herein by reference in response to this item.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

72

Table of Contents

PART II – OTHER INFORMATION

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
<u>31.1</u>	<u>Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
<u>31.2</u>	<u>Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
<u>32.1</u>	<u>Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
<u>32.2</u>	<u>Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
101	The following materials from First Commonwealth Financial Corporation’s Quarterly Report on Form 10-Q, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income and Comprehensive Income, (iii) the Condensed Consolidated Statements of Changes in Stockholders’ Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements.	Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST COMMONWEALTH FINANCIAL CORPORATION

(Registrant)

DATED: November 8, 2018 /s/ T. Michael Price
T. Michael Price
President and Chief Executive Officer

DATED: November 8, 2018 /s/ James R. Reske
James R. Reske
Executive Vice President, Chief Financial Officer and Treasurer