

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form 10-Q  
May 09, 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 March 31, 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 incorporation or organization) (I.R.S. Employer 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 May 8, 2018, was 100,361,905.

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## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	March 31, 2018	December 31, 2017
	(dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$65,886	\$98,624
Interest-bearing bank deposits	9,736	8,668
Securities available for sale, at fair value	812,877	731,358
Securities held to maturity, at amortized cost (Fair value of \$399,528 and \$418,249 at March 31, 2018 and December 31, 2017, respectively)	410,430	422,096
Other investments	24,400	29,837
Loans held for sale	9,759	14,850
Loans:		
Portfolio loans	5,381,305	5,407,376
Allowance for credit losses	(53,732)	(48,298)
Net loans	5,327,573	5,359,078
Premises and equipment, net	80,868	81,339
Other real estate owned	2,997	2,765
Goodwill	255,180	255,353
Amortizing intangibles, net	14,223	15,007
Bank owned life insurance	211,287	212,099
Other assets	95,551	77,465
<b>Total assets</b>	<b>\$7,320,767</b>	<b>\$7,308,539</b>
<b>Liabilities</b>		
Deposits (all domestic):		
Noninterest-bearing	\$1,443,747	\$1,416,771
Interest-bearing	4,259,775	4,163,934
<b>Total deposits</b>	<b>5,703,522</b>	<b>5,580,705</b>
Short-term borrowings	588,016	707,466
Subordinated debentures	72,167	72,167
Other long-term debt	8,011	8,161
Capital lease obligation	7,498	7,590
<b>Total long-term debt</b>	<b>87,676</b>	<b>87,918</b>
Other liabilities	42,204	44,323
<b>Total liabilities</b>	<b>6,421,418</b>	<b>6,420,412</b>
<b>Shareholders' Equity</b>		
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 March 31, 2018 and December 31, 2017, and 97,603,151 and 97,456,478 shares outstanding at March 31, 2018 and December 31, 2017, respectively	113,915	113,915
Additional paid-in capital	471,768	470,123
Retained earnings	454,227	437,416

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Accumulated other comprehensive loss, net	(13,009	)	(6,173	)
Treasury stock (16,311,751 and 16,458,424 shares at March 31, 2018 and December 31, 2017, respectively)	(127,552	)	(127,154	)
Total shareholders' equity	899,349		888,127	
Total liabilities and shareholders' equity	\$7,320,767		\$7,308,539	

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

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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 March 31, 2018    2017 (dollars in thousands, except share data)	
Interest Income		
Interest and fees on loans	\$58,483	\$ 48,300
Interest and dividends on investments:		
Taxable interest	7,056	6,994
Interest exempt from federal income taxes	410	397
Dividends	519	476
Interest on bank deposits	31	12
Total interest income	66,499	56,179
Interest Expense		
Interest on deposits	3,541	1,812
Interest on short-term borrowings	2,295	1,749
Interest on subordinated debentures	827	705
Interest on other long-term debt	77	83
Interest on lease obligations	74	—
Total interest expense	6,814	4,349
Net Interest Income	59,685	51,830
Provision for credit losses	6,903	3,229
Net Interest Income after Provision for Credit Losses	52,782	48,601
Noninterest Income		
Net securities gains	2,840	652
Trust income	1,928	1,417
Service charges on deposit accounts	4,406	4,319
Insurance and retail brokerage commissions	1,868	2,082
Income from bank owned life insurance	1,494	1,292
Gain on sale of mortgage loans	1,484	977
Gain on sale of other loans and assets	574	307
Card-related interchange income	4,742	4,251
Derivatives mark to market	789	2
Swap fee income (expense)	290	(73 )
Other income	1,628	1,706
Total noninterest income	22,043	16,932
Noninterest Expense		
Salaries and employee benefits	24,873	23,466
Net occupancy expense	4,369	3,761
Furniture and equipment expense	3,540	3,088
Data processing expense	2,433	2,085
Advertising and promotion expense	809	806

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Pennsylvania shares tax expense	903	816
Intangible amortization	784	572
Collection and repossession expense	823	497
Other professional fees and services	1,007	959
FDIC insurance	776	793
Loss on sale or write-down of assets	197	99
Litigation and operational losses	179	232
Merger and acquisition related	337	611
Other operating expenses	5,843	4,980
Total noninterest expense	46,873	42,765
Income Before Income Taxes	27,952	22,768
Income tax provision	4,682	6,880
Net Income	\$23,270	\$ 15,888
Average Shares Outstanding	97,433,137	88,929,892
Average Shares Outstanding Assuming Dilution	97,601,168	88,987,671
Per Share Data:		
Basic Earnings per Share	\$0.24	\$ 0.18
Diluted Earnings per Share	\$0.24	\$ 0.18
Cash Dividends Declared per Common Share	\$0.08	\$ 0.08

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

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## 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 March 31,	
	2018	2017
	(dollars in thousands)	
Net Income	\$23,270	\$15,888
Other comprehensive (loss) income, before tax benefit (expense):		
Unrealized holding (losses) gains on securities arising during the period	(3,982 )	2,543
Less: reclassification adjustment for gains on securities included in net income	(2,840 )	(652 )
Unrealized holding losses on derivatives arising during the period	(130 )	(516 )
Less: reclassification adjustment for losses on derivatives included in net income	—	78
Total other comprehensive (loss) income, before tax benefit (expense)	(6,952 )	1,453
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,460	(509 )
Total other comprehensive (loss) income	(5,492 )	944
Comprehensive Income	\$17,778	\$16,832

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

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## 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				23,270			23,270
Other comprehensive loss					(5,492 )		(5,492 )
Cash dividends declared (\$0.08 per share)				(7,803 )			(7,803 )
Treasury stock acquired	(72,307 )					(1,079 )	(1,079 )
Treasury stock reissued	149,480		1,108	—		1,149	2,257
Restricted stock	69,500	—	537	—		(468 )	69
Balance at March 31, 2018	97,603,151	\$113,915	\$471,768	\$454,227	\$ (13,009 )	\$(127,552)	\$ 899,349
	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				15,888			15,888
Other comprehensive income					944		944
Cash dividends declared (\$0.08 per share)				(7,119 )			(7,119 )
Treasury stock acquired	(78,632 )					(1,102 )	(1,102 )
Treasury stock reissued	158,638		1,044	—		1,214	2,258
Restricted stock	26,000	—	137	—		60	197
Balance at March 31, 2017	89,113,083	\$105,563	\$367,607	\$421,533	\$ (6,083 )	\$(127,625)	\$ 760,995

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



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## ITEM 1. Financial Statements and Supplementary Data (Continued)

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Operating Activities		
Net income	\$23,270	\$15,888
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	6,903	3,229
Deferred tax expense	1,097	2,506
Depreciation and amortization	2,380	2,113
Net gains on securities and other assets	(5,143 )	(1,718 )
Net amortization of premiums and discounts on securities	775	867
Income from increase in cash surrender value of bank owned life insurance	(1,494 )	(1,292 )
Increase in interest receivable	(620 )	(338 )
Mortgage loans originated for sale	(38,218 )	(27,580 )
Proceeds from sale of mortgage loans	46,134	29,829
(Decrease) increase in interest payable	(235 )	571
Increase in income taxes payable	3,557	4,354
Other-net	(17,004 )	(991 )
Net cash provided by operating activities	21,402	27,438
Investing Activities		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	11,335	10,826
Purchases	—	(25,140 )
Transactions with securities available for sale:		
Proceeds from sales	—	—
Proceeds from maturities and redemptions	44,067	33,125
Purchases	(130,012)	(85,220 )
Purchases of FHLB stock	(13,491 )	(12,883 )
Proceeds from the redemption of FHLB stock	18,928	10,712
Proceeds from sale of loans	6,647	—
Proceeds from sale of other assets	1,141	1,631
Restricted cash	—	(21,284 )
Net decrease (increase) in loans	16,012	(37,514 )
Purchases of other assets	(154 )	(410 )
Purchases of premises and equipment	(1,820 )	(1,531 )
Net cash used in investing activities	(47,347 )	(127,688 )
Financing Activities		
Net increase in federal funds purchased	6,000	—
Net (decrease) increase in other short-term borrowings	(125,450)	93,658
Net increase in deposits	122,849	22,385
Repayments of other long-term debt	(150 )	(145 )
Repayments of capital lease obligation	(92 )	—

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Dividends paid	(7,803 )	(7,119 )
Purchase of treasury stock	(1,079 )	(1,102 )
Net cash (used in) provided by financing activities	(5,725 )	107,677
Net (decrease) increase in cash and cash equivalents	(31,670 )	7,427
Cash and cash equivalents at January 1	107,292	115,677
Cash and cash equivalents at March 31	\$75,622	\$123,104

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

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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 three months ended March 31, 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 13, "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 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

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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 10, "Fair Values of Assets and Liabilities", the Company measured the fair value of its loan portfolio as of March 31, 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 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 Three Months Ended March 31,					
	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	\$ (3,982)	\$ 837	\$ (3,145)	\$ 2,543	\$ (890)	\$ 1,653
Reclassification adjustment for gains on securities included in net income	(2,840)	596	(2,244)	(652)	228	(424)
Total unrealized (losses) gains on securities	(6,822)	1,433	(5,389)	1,891	(662)	1,229
Unrealized losses on derivatives:						
Unrealized holding losses on derivatives arising during the period	(130)	27	(103)	(516)	181	(335)
Reclassification adjustment for losses on derivatives included in net income	—	—	—	78	(28)	50
Total unrealized losses on derivatives	(130)	27	(103)	(438)	153	(285)
Total other comprehensive (loss) income	\$ (6,952)	\$ 1,460	\$ (5,492)	\$ 1,453	\$ (509)	\$ 944

The following table details the change in components of OCI for the three months ended March 31:

	2018			2017				
	Securities Available for Sale	Post-Retirement Obligation	Derivatives	Accumulated Other Comprehensive Income (Loss)	Securities Available for Sale	Post-Retirement Obligation	Derivatives	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	(3,145)	—	(103)	(3,248)	1,653	—	(335)	1,318

adjustment

Amounts reclassified from accumulated other comprehensive (loss) income	(2,244 )—	—	(2,244 )	(424 )—	50	(374 )
Net other comprehensive (loss) income during the period	(5,389 )—	(103 )	(5,492 )	1,229	—	(285 ) 944
Balance at March 31	\$(12,899)\$ 299	\$ (409 )	\$(13,009 )	\$(6,226)\$ 225	\$ (82 )	\$(6,083 )

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## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 3 Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the period for interest, as well as detail on non-cash investing and financing activities for the three months ended March 31:

	2018	2017
	(dollars in thousands)	
Cash paid during the period for:		
Interest	\$7,072	\$3,832
Income taxes	28	1,039
Non-cash investing and financing activities:		
Loans transferred to other real estate owned and repossessed assets	1,186	958
Loans transferred from held to maturity to held for sale	8,019	3,613
Gross (decrease) increase in market value adjustment to securities available for sale	(6,822 )	1,892
Gross decrease in market value adjustment to derivatives	(131 )	(438 )
Investments committed to purchase, not settled	—	498
Noncash treasury stock reissuance	2,257	2,258
Proceeds from death benefit on bank-owned life insurance not received	2,306	—

## Note 4 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 March 31,	
	2018	2017
Weighted average common shares issued	113,914,902	105,563,455
Average treasury stock shares	(16,369,144 )	(16,527,204 )
Average deferred compensation shares	(37,411 )	—
Average unearned nonvested shares	(75,210 )	(106,359 )
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	97,433,137	88,929,892
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	130,614	57,779
Additional common stock equivalents (deferred compensation) used to calculate diluted earnings per share	37,411	—
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	97,601,162	88,987,671

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 three months ended March 31 because to do so would have been antidilutive.

	2018			2017		
	Shares	Price Range		Shares	Price Range	
		From	To		From	To
Restricted Stock	37,298	\$9.84	\$14.49	13,750	\$13.96	\$13.96
Restricted Stock Units	43,067	\$13.25	\$15.83	24,375	\$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 5 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:

	March 31,	December
	2018	31, 2017
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$1,782,701	\$1,840,180
Financial standby letters of credit	17,636	17,946
Performance standby letters of credit	21,328	20,472
Commercial letters of credit	1,055	1,149

The notional amounts outstanding as of March 31, 2018 include amounts issued in 2018 of \$37 thousand in financial standby letters of credit and \$0.4 million in performance standby letters of credit. There were no commercial letters of credit issued in 2017. A liability of \$0.2 million has been recorded as of March 31, 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 March 31, 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 March 31, 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 is pending in the Court of Common Pleas of Jefferson County, Pennsylvania. The plaintiffs allege 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. The plaintiffs seek to pursue the action as a class action on behalf of the named plaintiffs and other similarly situated plaintiffs who had their automobiles repossessed and seek to recover damages under the UCC and the

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Pennsylvania Fair Credit Extension Uniformity Act. First Commonwealth Financial Corporation, First Commonwealth Bank, the plaintiffs, the plaintiffs' counsel and First Commonwealth's liability insurer have entered into a Class Action Settlement Agreement and Release in which, among other things, First Commonwealth and its insurer have agreed to pay certain amounts into a settlement fund to be distributed among the class members and class counsel, First Commonwealth has 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 will release all claims against First Commonwealth and its insurer. The Court granted preliminary approval of the settlement on March 29, 2018, and has scheduled a hearing on July 23, 2018 to consider final approval of the settlement. The estimated cost of the settlement to First Commonwealth was recorded as a liability in the second quarter of 2016. As set forth in the preceding paragraph, all current litigation matters, including this action, are believed to be within the range of reasonably possible losses set forth in the preceding paragraph.

## Note 6 Investment Securities

## Securities Available for Sale

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

	March 31, 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	\$10,100	\$ 646	\$(81 )	\$10,665	\$10,556	\$ 789	\$(7 )	\$11,338
Mortgage-Backed Securities – Commercial	73,389	—	(1,252 )	72,137	24,611	—	(462 )	24,149
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	681,343	1,913	(18,468 )	664,788	632,422	2,622	(9,489 )	625,555
Other Government-Sponsored Enterprises	1,100	—	(2 )	1,098	1,098	—	(1 )	1,097
Obligations of States and Political Subdivisions	27,086	121	(46 )	27,161	27,083	327	—	27,410
Corporate Securities	20,898	542	(214 )	21,226	15,907	590	(4 )	16,493
Pooled Trust Preferred Collateralized Debt Obligations	13,602	1,252	(722 )	14,132	27,499	526	(4,379 )	23,646
Total Debt Securities	827,518	4,474	(20,785 )	811,207	739,176	4,854	(14,342 )	729,688
Equities	1,670	—	—	1,670	1,670	—	—	1,670
Total Securities Available for Sale	\$829,188	\$ 4,474	\$(20,785 )	\$812,877	\$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.

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and estimated fair value of debt securities available for sale at March 31, 2018, by contractual maturity, are shown below.

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	\$5,099	\$5,073
Due after 1 but within 5 years	15,727	15,541
Due after 5 but within 10 years	26,337	26,409
Due after 10 years	15,523	16,594
	62,686	63,617
Mortgage-Backed Securities (a)	764,832	747,590
Total Debt Securities	\$827,518	\$811,207

Mortgage-Backed Securities include an amortized cost of \$83.5 million and a fair value of \$82.8 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$681.3 million and a fair value of \$664.8 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 three months ended March 31:

	2018	2017
	(dollars in thousands)	
Proceeds from sales	\$ —	\$ —
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	\$ —	\$ —
Gross losses	—	—
	—	—
Maturities and impairment		
Gross gains	2,840	652
Gross losses	—	—
	2,840	652
Net gains and impairment	\$ 2,840	\$ 652

Gross gains from maturities and impairment of \$2.8 million were recognized in 2018 as a result of the successful auction call on PreSTL XIV, one 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 \$609.9 million and \$569.0 million were pledged as of March 31, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or permitted by law.

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## 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:

	March 31, 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	\$3,895	\$ —	\$(109)	\$3,786	\$3,925	\$ —	\$(14)	\$3,911
Mortgage-Backed Securities- Commercial	57,762	—	(2,224)	55,538	58,249	—	(1,394)	56,855
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	294,205	—	(7,645)	286,560	305,126	10	(2,552)	302,584
Mortgage-Backed Securities – Commercial	13,859	—	(299)	13,560	14,056	—	(71)	13,985
Obligations of States and Political Subdivisions	40,509	38	(660)	39,887	40,540	335	(161)	40,714
Debt Securities Issued by Foreign Governments	200	—	(3)	197	200	—	—	200
Total Securities Held to Maturity	\$410,430	\$ 38	\$(10,940)	\$399,528	\$422,096	\$ 345	\$(4,192)	\$418,249

The amortized cost and estimated fair value of debt securities held to maturity at March 31, 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	\$87	\$86
Due after 1 but within 5 years	3,646	3,626
Due after 5 but within 10 years	35,350	34,764
Due after 10 years	1,626	1,608
	40,709	40,084
Mortgage-Backed Securities (a)	369,721	359,444
Total Debt Securities	\$410,430	\$399,528

Mortgage-Backed Securities include an amortized cost of \$61.7 million and a fair value of \$59.3 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$308.1 million and a fair value of \$300.1 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 \$369.4 million and \$338.3 million were pledged as of March 31, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or permitted by

law.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7 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 three months ended March 31, 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 additional bank failures, weakness in the U.S. economy, changes in real estate values and additional interest deferrals in our pooled trust preferred collateralized debt obligations. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of FASB ASC Topic 325, "Investments – Other," and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows indicate that it is probable that an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FASB ASC Topic 320. There is a risk that First Commonwealth will record other-than-temporary impairment charges in the future. See Note 10, "Fair Values of Assets and Liabilities," for additional information.

The following table presents the gross unrealized losses and estimated fair values at March 31, 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	\$7,923	\$(190 )	\$—	\$—	\$7,923	\$(190 )
Mortgage-Backed Securities – Commercial	95,862	(2,120 )	31,813	(1,356 )	127,675	(3,476 )
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	500,625	(10,277 )	378,709	(15,836 )	879,334	(26,113 )
Mortgage-Backed Securities – Commercial	13,560	(299 )	—	—	13,560	(299 )
Other Government-Sponsored Enterprises	999	(1 )	99	(1 )	1,098	(2 )
Obligations of States and Political Subdivisions	31,032	(413 )	3,489	(293 )	34,521	(706 )
Debt securities issued by foreign governments	197	(3 )	—	—	197	(3 )
Corporate Securities	18,764	(214 )	—	—	18,764	(214 )
Pooled Trust Preferred Collateralized Debt Obligations	—	—	6,362	(722 )	6,362	(722 )
Total Securities	\$668,962	\$(13,517 )	\$420,472	\$(18,208 )	\$1,089,434	\$(31,725 )



At March 31, 2018, fixed income securities issued by U.S. Government-sponsored enterprises and U.S. Government agencies comprised 83% and 12%, respectively, of total unrealized losses due to changes in market interest rates. Pooled trust preferred collateralized debt obligations accounted for 2% of the unrealized losses primarily due to the illiquid market for this investment type. At March 31, 2018, there are 155 debt securities in an unrealized loss position.

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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 March 31, 2018, our corporate securities had an amortized cost and an estimated fair value of \$20.9 million and \$21.2 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 March 31, 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.

As of March 31, 2018, the book value of our pooled trust preferred collateralized debt obligations totaled \$13.6 million with an estimated fair value of \$14.1 million, which includes securities comprised of 164 banks and other financial institutions. All of our pooled securities are mezzanine tranches, two of which have no senior class remaining in the issue. The credit ratings on all of our issues are below investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of March 31, 2018, after taking into account management's best estimates of future interest deferrals and defaults, two of our securities had no excess subordination in the tranches we own and four of our securities had excess subordination which ranged from 2% to 114% of the current performing collateral.

The following table provides information related to our pooled trust preferred collateralized debt obligations as of March 31, 2018:

Deal	Class	Book Value	Estimated Fair Value	Unrealized Gain (Loss)	Moody's/Number Fitch Ratings	of Banks	Deferrals and Defaults as a % of Current	Excess Subordination as a % of Current Performing
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						Collateral		Collateral		
(dollars in thousands)										
Pre TSL IV	Mezzanine	\$933	\$ 738	\$ (195	)	Ba1/BB	5	—	% 113.79	%
Pre TSL VIII	Mezzanine	2,072	2,295	223		C/C	26	38.52	0.00	
Pre TSL IX	Mezzanine	2,457	3,000	543		B1/C	37	27.83	19.46	
Pre TSL X	Mezzanine	1,894	2,301	407		Caa1/C	41	26.29	1.73	
Pre TSL XII	Mezzanine	6,151	5,624	(527	)	B3/C	64	23.39	0.00	
MMCap I	Mezzanine	95	174	79		Ca/C	7	69.35	69.99	
Total		\$13,602	\$ 14,132	\$ 530						

Lack of liquidity in the market for trust preferred collateralized debt obligations, below investment grade credit ratings and market uncertainties related to the financial industry are factors contributing to the impairment on these securities.

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All of the Company's pooled trust preferred securities are included in the non-exclusive list issued by the regulatory agencies and therefore are not considered covered funds under the Volcker Rule.

During the three months ended March 31, 2018, an auction call was successfully completed on PreTSL XIV. This resulted in the security being called at par providing a gain of \$2.8 million.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the three months ended March 31, 2018 and 2017, there were no credit-related other-than-temporary impairment charges recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments, we determine a credit-related portion and a non-credit related portion of other-than-temporary impairment. The credit-related portion is recognized in earnings and represents the difference between book value and the present value of future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the fair value of the security and the amount of credit-related impairment. A discounted cash flow analysis provides the best estimate of credit-related other-than-temporary impairment for these securities.

Additional information related to the discounted cash flow analysis follows:

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at March 31, 2018. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

Results of a discounted cash flow test are significantly affected by other variables, such as the estimate of future cash flows, credit worthiness of the underlying banks and determination of probability of default of the underlying collateral. The following provides additional information for each of these variables:

**Estimate of Future Cash Flows** – Cash flows are constructed in an INTEX cash flow model which includes each deal's structural features. Projected cash flows include prepayment assumptions, which are dependent on the issuer's asset size and coupon rate. For collateral issued by financial institutions over \$15 billion in asset size with a coupon over 7%, a 100% prepayment rate is assumed. Financial institutions over \$15 billion with a coupon of 7% or under are assigned a prepayment rate of 40% for two years and 2% thereafter. Financial institutions with assets between \$2 billion and \$15 billion with coupons over 7% are assigned a 5% prepayment rate. For financial institutions below \$2 billion, if the coupon is over 10%, a prepayment rate of 5% is assumed and for all other issuers, there is no prepayment assumption incorporated into the cash flows. The modeled cash flows are then used to estimate if all the scheduled principal and interest payments of our investments will be returned.

**Credit Analysis** – A quarterly credit evaluation is performed for each of the 164 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

**Probability of Default** – A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and, therefore, a 100% probability of default is assigned. However, for some deferring collateral there is the possibility that they will become current on interest or principal payments at some point in the future and in those cases a probability that the deferral

will ultimately cure is assigned. The probability of default is updated quarterly. As of March 31, 2018, default probabilities for performing collateral ranged from 0.33% to 50%.

Our credit evaluation provides a basis for determining deferral and default probabilities for each underlying piece of collateral. Using the results of the credit evaluation, the next step of the process is to look at pricing of senior debt or credit default swaps for the issuer (or where such information is unavailable, for companies having similar credit profiles as the issuer). The pricing of these market indicators provides the information necessary to determine appropriate default probabilities for each bank.

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the above factors, our evaluation of impairment also includes a stress test analysis which provides an estimate of excess subordination for each tranche. We stress the cash flows of each pool by increasing current default assumptions to the level of defaults that results in an adverse change in estimated cash flows. This stressed breakpoint is then used to calculate excess subordination levels for each pooled trust preferred security. The results of the stress test allow management to identify those pools that are at a greater risk for a future break in cash flows so that we can monitor banks in those pools more closely for potential deterioration of credit quality.

Our cash flow analysis as of March 31, 2018, indicates that no credit-related other-than-temporary impairment has occurred on our pooled trust preferred securities during the three months ended March 31, 2018. Based upon the analysis performed by management, it is probable that two of our pooled trust preferred securities will experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded in prior periods. These securities are identified in the previous table with 0.00% "Excess Subordination as a % of Current Performing Collateral." For the remaining securities listed in that table, our analysis as of March 31, 2018 indicates it is probable that we will collect all contractual principal and interest payments. For three of those securities, PreTSL IX, PreTSL X, and MMCap I, other-than-temporary impairment charges were recorded in prior periods; however, due to improvement in the expected cash flows of these securities, it is now probable that all contractual payments will be received.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL IV. Our cash flow analysis as of March 31, 2018, for all of these impaired securities indicates that it is now probable we will collect principal and interest in excess of what was estimated at the time other-than-temporary impairment charges were recorded. This change can be attributed to improvement in the underlying collateral for these securities and has resulted in the present value of estimated future principal and interest payments exceeding the securities' current book value. The excess for each bond of the present value of future cash flows over our current book value ranges from 19% to 101% and will be recognized as an adjustment to yield over the remaining life of these securities. The excess subordination recognized as an adjustment to yield is reflected in the following table as increases in cash flows expected to be collected.

The following table provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold:

	For the Three Months Ended March 31, 2018      2017 (dollars in thousands)	
Balance, beginning (a)	\$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)	(147 )	(228 )
Reduction for debt securities called during the period	(2,302 )	—
Balance, ending	\$9,759	\$16,828

(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.

In the first three months of 2018 and 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 changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of March 31, 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 March 31, 2018 and

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December 31, 2017, our FHLB stock totaled \$24.4 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 months ended March 31, 2018.

## Note 8 Loans and Allowance for Credit Losses

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

	March 31, 2018			December 31, 2017		
	Originated	Acquired	Total	Originated	Acquired	Total
	(dollars in thousands)					
Commercial, financial, agricultural and other	\$1,093,192	\$38,402	\$1,131,594	\$1,122,741	\$40,642	\$1,163,383
Real estate construction	245,841	1,120	246,961	242,905	5,963	248,868
Residential real estate	1,220,989	213,634	1,434,623	1,206,119	220,251	1,426,370
Commercial real estate	1,901,609	125,463	2,027,072	1,892,185	126,911	2,019,096
Loans to individuals	535,484	5,571	541,055	543,411	6,248	549,659
Total loans	\$4,997,115	\$384,190	\$5,381,305	\$5,007,361	\$400,015	\$5,407,376

## 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.



## 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 represent our credit risk profile by creditworthiness:

	March 31, 2018					
	Commercial,					
	financial,	Real estate	Residential	Commercial	Loans to	Total
	agricultural	construction	real estate	real estate	individuals	
	and other					
	(dollars in thousands)					
Originated loans						
Pass	\$ 1,020,603	\$ 245,841	\$ 1,209,290	\$ 1,871,008	\$ 535,240	\$ 4,881,982
Non-Pass						
OAEM	31,480	—	1,574	7,748	—	40,802
Substandard	34,140	—	10,125	22,853	244	67,362
Doubtful	6,969	—	—	—	—	6,969
Total Non-Pass	72,589	—	11,699	30,601	244	115,133
Total	\$ 1,093,192	\$ 245,841	\$ 1,220,989	\$ 1,901,609	\$ 535,484	\$ 4,997,115

Acquired loans						
Pass	\$ 32,439	\$ 1,120	\$ 211,361	\$ 122,411	\$ 5,554	\$ 372,885
Non-Pass						
OAEM	5,486	—	745	1,251	—	7,482
Substandard	477	—	1,528	1,801	17	3,823
Doubtful	—	—	—	—	—	—
Total Non-Pass	5,963	—	2,273	3,052	17	11,305
Total	\$ 38,402	\$ 1,120	\$ 213,634	\$ 125,463	\$ 5,571	\$ 384,190

	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

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## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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 March 31, 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.

## 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 March 31, 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.

	March 31, 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	\$2,163	\$23	\$ 168	\$ 24,298	\$ 26,652	\$ 1,066,540	\$ 1,093,192
Real estate construction	—	—	—	—	—	245,841	245,841
Residential real estate	2,849	996	649	6,187	10,681	1,210,308	1,220,989
Commercial real estate	1,751	783	304	5,675	8,513	1,893,096	1,901,609
Loans to individuals	1,369	463	768	244	2,844	532,640	535,484
Total	\$8,132	\$2,265	\$ 1,889	\$ 36,404	\$ 48,690	\$ 4,948,425	\$ 4,997,115
Acquired loans							
Commercial, financial, agricultural and other	\$11	\$—	\$ 26	\$ 411	\$ 448	\$37,954	\$38,402
Real estate construction	—	—	—	—	—	1,120	1,120
Residential real estate	119	110	21	718	968	212,666	213,634
Commercial real estate	—	—	—	1,000	1,000	124,463	125,463
Loans to individuals	66	11	19	17	113	5,458	5,571
Total	\$196	\$121	\$ 66	\$ 2,146	\$ 2,529	\$381,661	\$384,190

## 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)							
<b>Originated loans</b>							
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
<b>Acquired loans</b>							
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 March 31, 2018 and December 31, 2017, there were no nonaccrual loans held for sale. There were no gains or losses recognized on sales of impaired loans during the three months ended March 31, 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 following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of March 31, 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.

	March 31, 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	\$4,791	\$9,559		\$5,548	\$12,153	
Real estate construction	—	—		—	—	
Residential real estate	10,129	12,000		10,625	12,470	
Commercial real estate	4,624	5,038		5,155	5,489	
Loans to individuals	339	379		347	383	
Subtotal	19,883	26,976		21,675	30,495	
With an allowance recorded:						
Commercial, financial, agricultural and other	28,615	28,795	\$ 9,045	16,866	21,094	\$ 3,478
Real estate construction	—	—	—	—	—	—
Residential real estate	808	846	277	456	478	107
Commercial real estate	5,753	5,763	2,139	954	954	128
Loans to individuals	—	—	—	—	—	—
Subtotal	35,176	35,404	11,461	18,276	22,526	3,713
Total	\$55,059	\$62,380	\$ 11,461	\$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)

	March 31, 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	\$411	\$ 424		\$436	\$ 449	
Real estate construction	—	—		—	—	
Residential real estate	677	1,003		666	965	
Commercial real estate	891	1,811		940	1,842	
Loans to individuals	17	17		17	17	
Subtotal	1,996	3,255		2,059	3,273	
With an allowance recorded:						
Commercial, financial, agricultural and other	—	—	\$ —	—	—	\$ —
Real estate construction	—	—	—	—	—	—
Residential real estate	93	122	10	93	122	4
Commercial real estate	109	124	2	137	150	29
Loans to individuals	—	—	—	—	—	—
Subtotal	202	246	12	230	272	33
Total	\$2,198	\$ 3,501	\$ 12	\$2,289	\$ 3,545	\$ 33

	For the Three Months Ended March 31, 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	\$8,130	\$ 10	\$411	\$ —	\$12,034	\$ 38	\$ —	\$ —
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	10,401	63	678	1	11,422	74	241	—
Commercial real estate	5,510	31	907	—	5,949	54	162	—
Loans to individuals	354	2	17	—	338	2	—	—
Subtotal	24,395	106	2,013	1	29,743	168	403	—
With an allowance recorded:								
Commercial, financial, agricultural and other	17,720	66	—	—	12,787	26	—	—
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	706	—	93	—	334	1	65	—
Commercial real estate	1,960	1	118	—	1,111	7	—	—
Loans to individuals	—	—	—	—	—	—	—	—
Subtotal	20,386	67	211	—	14,232	34	65	—

Total	\$44,781	\$ 173	\$2,224	\$ 1	\$43,975	\$ 202	\$ 468	\$	—
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## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unfunded commitments related to nonperforming loans were \$4.2 million at March 31, 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 \$0.4 million and \$0.2 million was established for these off balance sheet exposures at March 31, 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:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	\$ 18,707	\$ 11,563
Nonaccrual status	10,233	11,222
Total	\$ 28,940	\$ 22,785
Commitments		
Letters of credit	\$ 60	\$ 60
Unused lines of credit	1,778	54
Total	\$ 1,838	\$ 114

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 March 31, 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	2	\$ 4,709	\$ —	\$ 162	\$ 4,871	\$ 3,942	\$ 531
Residential real estate	11	20	75	346	441	404	17
Commercial real estate	1	3,017	—	—	3,017	2,994	227
Loans to individuals	4	—	28	30	58	53	—
Total	18	\$ 7,746	\$ 103	\$ 538	\$ 8,387	\$ 7,393	\$ 775

## 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 March 31, 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	1	\$—	\$ 42	\$ —	\$ 42	\$ 38	\$ —
Residential real estate	7	129	101	306	536	504	—
Commercial real estate	2	179	—	16	195	193	—
Loans to individuals	3	—	14	30	44	43	—
Total	13	\$308	\$ 157	\$ 352	\$ 817	\$ 778	\$ —

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 March 31, 2018 and 2017, \$0.1 million and \$0.2 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.

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 three months ended March 31:

	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(dollars in thousands)			
Commercial, financial, agricultural and other	1	\$ 940	—	\$ —
Total	1	\$ 940	—	\$ —

## 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 related to the allowance for credit losses:

For the Three Months Ended March 31, 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	(290 )	—	(455 )	(168 )	(1,169 )	(2,082 )
Recoveries	256	1	75	69	195	596
Provision (credit)	4,148	(236 )	768	1,265	986	6,931
Ending balance	27,532	1,114	3,141	18,494	3,416	53,697

Acquired loans:

Beginning balance	11	—	6	29	—	46
Charge-offs	—	—	(16 )	—	(4 )	(20 )
Recoveries	7	<del>6</del>	17	—	7	37
Provision (credit)	2	(6 )	6	(27 )	(3 )	(28 )
Ending balance	20	—	13	2	—	35

Total ending balance	\$27,552	\$ 1,114	\$ 3,154	\$ 18,496	\$ 3,416	\$53,732
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Ending balance: individually evaluated for impairment	\$9,045	\$ —	\$ 287	\$ 2,141	\$ —	\$ 11,473
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Ending balance: collectively evaluated for impairment	18,507	1,114	2,867	16,355	3,416	42,259
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Loans:

Ending balance	1,131,594	246,961	1,434,623	2,027,072	541,055	5,381,305
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Ending balance: individually evaluated for impairment	33,278	—	6,853	10,360	—	50,491
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Ending balance: collectively evaluated for impairment	1,098,316	246,961	1,427,770	2,016,712	541,055	5,330,814
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## 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 March 31, 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	(3,825 )	—	(465 )	(31 )	(1,198 )	(5,519 )
Recoveries	368	54	122	117	128	789
Provision (credit)	2,184	(17 )	265	(123 )	900	3,209
Ending balance	34,701	614	2,414	6,582	4,334	48,645

## Acquired loans:

Beginning balance	—	—	19	—	—	19
Charge-offs	—	—	(8 )	—	(7 )	(15 )
Recoveries	—	—	6	—	1	7
Provision (credit)	—	—	14	—	6	20
Ending balance	—	—	31	—	—	31

Total ending balance	\$34,701	\$ 614	\$ 2,445	\$ 6,582	\$ 4,334	\$48,676
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Ending balance: individually evaluated for impairment	\$2,466	\$ —	\$ 175	\$ 376	\$ —	\$3,017
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Ending balance: collectively evaluated for impairment	32,235	614	2,270	6,206	4,334	45,659
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## Loans:

Ending balance	1,148,460	240,122	1,217,398	1,761,101	540,880	4,907,961
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Ending balance: individually evaluated for impairment	26,260	—	6,287	5,819	—	38,366
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Ending balance: collectively evaluated for impairment	1,122,200	240,122	1,211,111	1,755,282	540,880	4,869,595
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## Note 9 Income Taxes

At March 31, 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 March 31, 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 10 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

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ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

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 7, “Impairment of Investment Securities.”

Loans held for sale 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. Also included in loans

held for sale are 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 11, “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.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks, thrifts and bank holding companies in the United States. There has been little or no active trading in these securities since 2009; therefore, it is more appropriate to determine estimated fair value using a discounted cash flow analysis. Detail on our process for determining the appropriate cash flows for this analysis is provided in Note 7, “Impairment of Investment Securities.” The discount rate applied to the cash flows is 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. Due to the fact that there is no active market for the pooled trust preferred collateralized debt obligations, one key reference point is the market yield for the single issue trust preferred securities issued by banks and thrifts for which there is more activity than for the pooled securities.

Adjustments are then made to reflect the credit and structural differences between these two security types.

Management validates the fair value of the pooled trust preferred collateralized debt obligations by monitoring the performance of the underlying collateral, discussing the discount rate, cash flow assumptions and general market trends with a specialized third party and confirming changes in the underlying collateral to the trustee reports.

Management’s monitoring of the underlying collateral includes deferrals of interest payments, payment defaults, cures of previously deferred interest payments, any regulatory filings or actions and general news related to the underlying collateral. Management also evaluates fair value changes compared to expectations based on changes in the interest rates used in determining the discount rate and general financial markets.

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).



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Fair Value (dollars in thousands)	Valuation Technique	Unobservable Inputs	Range / (weighted average)
Pooled Trust Preferred Securities	\$ 14,132	Discounted Cash Flow	Probability of default	0% - 100% (7.42%)
			Prepayment rates	0% - 71.89% (8.73%)
Equities	1,670	Par Value	Discount rates	5% - 11.5% (a)
Impaired Loans	1,290	(b) Reserve study	N/A	N/A
			Discount rate	10.00%
			Gas per MMBTU	\$2.81 - \$3.35 (c)
			Oil per BBL/d	\$51.59 - \$59.55 (c)
	11,181	(b) Discounted Cash Flow	Discount Rate	1.9% - 21.0%
Limited Partnership Investments	2,292	Par Value	N/A	N/A

(a) Incorporates spread over risk free rate related primarily to credit quality and illiquidity of securities.

(b) 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.

(c) Unobservable inputs are defined as follows: MMBTU - million British thermal units; BBL/d - barrels per day. The significant unobservable inputs used in the fair value measurement of pooled trust preferred securities are the probability of default, discount rates and prepayment rates. Significant increases in the probability of default or discount rate used would result in a decrease in the estimated fair value of these securities, while decreases in these variables would result in higher fair value measurements. In general, a change in the assumption of probability of default is accompanied by a directionally similar change in the discount rate. In most cases, increases in the prepayment rate assumptions would result in a higher estimated fair value for these securities while decreases would provide for a lower value. The direction of this change is somewhat dependent on the structure of the investment and the amount of the investment tranches senior to our position.

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.

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## 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:

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	\$ 10,665	\$ —		\$ 10,665
Mortgage-Backed Securities - Commercial	72,137	—		72,137
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	664,788	—		664,788
Other Government-Sponsored Enterprises	1,098	—		1,098
Obligations of States and Political Subdivisions	27,161	—		27,161
Corporate Securities	21,226	—		21,226
Pooled Trust Preferred Collateralized Debt Obligations	—	14,132		14,132
Total Debt Securities	797,075	14,132		811,207
Equities	—	1,670		1,670
Total Securities Available for Sale	797,075	15,802		812,877
Other Investments	24,400	—		24,400
Loans Held for Sale	9,759	—		9,759
Other Assets(a)	4,355	2,292		6,647
Total Assets	\$ 835,589	\$ 18,094		\$ 853,683
Other Liabilities(a)	\$ 4,879	\$ —		\$ 4,879
Total Liabilities	\$ 4,879	\$ —		\$ 4,879

(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 three months ended March 31, 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	2,840	—	—	2,840
Included in other comprehensive income	4,529	—	—	4,529
Purchases, issuances, sales and settlements				
Purchases	—	—	149	149
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(16,883 )	—	—	(16,883 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$14,132	\$ 1,670	\$2,292	\$18,094

	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	497	—	—	497
Purchases, issuances, sales and settlements				
Purchases	—	—	410	410
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(48 )	—	—	(48 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$33,741	\$ 1,670	\$1,340	\$36,751

During the three months ended March 31, 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 March 31, 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:

	March 31, 2018		
	Level 2	Level 3	Total
	(dollars in thousands)		
Impaired loans	\$26,546	\$19,238	\$45,784
Other real estate owned	3,278	—	3,278
Total Assets	\$29,824	\$19,238	\$49,062

	December 31, 2017		
	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	\$26,513	\$15,245	\$41,758

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

	For the Three Months Ended	
	March 31, 2018	March 31, 2017
	(dollars in thousands)	
Impaired loans	\$(7,850)	\$(1,460)
Other real estate owned	(30)	(31)
Total losses	\$(7,880)	\$(1,491)

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 \$3.0 million as of March 31, 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 12, "Goodwill." There were no other assets or liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 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.

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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 March 31, 2018 and December 31, 2017. See Note 5, "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:

March 31, 2018

Fair Value Measurements Using:

Carrying  
Amount

	Total	Level 1	Level 2	Level 3
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(dollars in thousands)

## Financial assets

Cash and due from banks	\$65,886	\$65,886	\$65,886	\$	—\$	—
Interest-bearing deposits	9,736	9,736	9,736	—	—	—
Securities available for sale	812,877	812,877	—	797,075	15,802	—
Securities held to maturity	410,430	399,528	—	399,528	—	—
Other investments	24,400	24,400	—	24,400	—	—
Loans held for sale	9,759	9,759	—	9,759	—	—
Loans	5,381,305	5,399,240	—	26,546	5,372,694	—

## Financial liabilities