

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form 10-Q  
August 08, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2018

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-11138

First Commonwealth Financial Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania

25-1428528

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

601 Philadelphia Street, Indiana, PA 15701

(Address of principal executive offices) (Zip Code)

724-349-7220

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Smaller reporting company  Emerging growth company

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of August 7, 2018, was 100,364,567.

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## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	June 30, 2018	December 31, 2017
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 101,744	\$ 98,624
Interest-bearing bank deposits	2,237	8,668
Securities available for sale, at fair value	851,243	731,358
Securities held to maturity, at amortized cost (Fair value of \$390,168 and \$418,249 at June 30, 2018 and December 31, 2017, respectively)	403,019	422,096
Other investments	25,327	29,837
Loans held for sale	7,038	14,850
Loans:		
Portfolio loans	5,640,106	5,407,376
Allowance for credit losses	(51,314 )	(48,298 )
Net loans	5,588,792	5,359,078
Premises and equipment, net	81,604	81,339
Other real estate owned	3,757	2,765
Goodwill	274,408	255,353
Amortizing intangibles, net	14,643	15,007
Bank owned life insurance	212,956	212,099
Other assets	81,987	77,465
Total assets	\$ 7,648,755	\$ 7,308,539
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 1,489,058	\$ 1,416,771
Interest-bearing	4,424,516	4,163,934
Total deposits	5,913,574	5,580,705
Short-term borrowings	545,187	707,466
Subordinated debentures	170,304	72,167
Other long-term debt	7,859	8,161
Capital lease obligation	7,405	7,590
Total long-term debt	185,568	87,918
Other liabilities	43,641	44,323
Total liabilities	6,687,970	6,420,412
Shareholders' Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	—	—
Common stock, \$1 par value per share, 200,000,000 shares authorized; 113,914,902 shares issued at June 30, 2018 and December 31, 2017, and 100,364,567 and 97,456,478 shares outstanding at June 30, 2018 and December 31, 2017, respectively	113,915	113,915
Additional paid-in capital	492,262	470,123
Retained earnings	477,276	437,416

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Accumulated other comprehensive loss, net	(16,561	)	(6,173	)
Treasury stock (13,550,335 and 16,458,424 shares at June 30, 2018 and December 31, 2017, respectively)	(106,107	)	(127,154	)
Total shareholders' equity	960,785		888,127	
Total liabilities and shareholders' equity	\$7,648,755		\$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 June 30, 2018		For the Six Months Ended June 30, 2018	
	2017		2017	
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	\$63,941	\$ 54,913	\$122,424	\$ 103,213
Interest and dividends on investments:				
Taxable interest	8,076	7,364	15,132	14,358
Interest exempt from federal income taxes	411	405	821	802
Dividends	473	383	992	859
Interest on bank deposits	39	55	70	67
Total interest income	72,940	63,120	139,439	119,299
Interest Expense				
Interest on deposits	5,092	2,208	8,633	4,020
Interest on short-term borrowings	2,489	2,197	4,784	3,946
Interest on subordinated debentures	1,535	738	2,362	1,443
Interest on other long-term debt	75	81	152	164
Interest on lease obligations	74	79	148	79
Total interest expense	9,265	5,303	16,079	9,652
Net Interest Income	63,675	57,817	123,360	109,647
Provision for credit losses	1,168	(1,609)	) 8,071	1,620
Net Interest Income after Provision for Credit Losses	62,507	59,426	115,289	108,027
Noninterest Income				
Net securities gains (losses)	5,262	(49)	) 8,102	603
Trust income	1,880	1,711	3,808	3,128
Service charges on deposit accounts	4,423	4,736	8,829	9,055
Insurance and retail brokerage commissions	1,820	2,442	3,688	4,524
Income from bank owned life insurance	2,168	1,449	3,662	2,741
Gain on sale of mortgage loans	1,241	1,315	2,725	2,292
Gain on sale of other loans and assets	2,331	457	2,905	764
Card-related interchange income	5,143	4,842	9,885	9,093
Derivatives mark to market	—	(37)	) 789	(35)
Swap fee income	297	314	587	241
Other income	1,743	1,724	3,371	3,430
Total noninterest income	26,308	18,904	48,351	35,836
Noninterest Expense				
Salaries and employee benefits	26,154	25,298	51,027	48,764
Net occupancy expense	4,222	4,121	8,591	7,882
Furniture and equipment expense	3,647	3,323	7,187	6,411
Data processing expense	2,478	2,345	4,911	4,430
Advertising and promotion expense	1,176	988	1,985	1,794
Pennsylvania shares tax expense	1,247	1,161	2,150	1,977
Intangible amortization	829	846	1,613	1,418

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Collection and repossession expense	607	443	1,430	940
Other professional fees and services	1,031	1,096	2,038	2,055
FDIC insurance	597	977	1,373	1,770
Loss on sale or write-down of assets	497	1,220	694	1,319
Litigation and operational losses	197	277	376	509
Merger and acquisition related	1,273	9,870	1,610	10,481
Other operating expenses	5,174	6,298	11,017	11,278
Total noninterest expense	49,129	58,263	96,002	101,028
Income Before Income Taxes	39,686	20,067	67,638	42,835
Income tax provision	7,605	6,054	12,287	12,934
Net Income	\$32,081	\$ 14,013	\$55,351	\$ 29,901
Average Shares Outstanding	99,305,000	97,183,599	98,374,244	93,079,546
Average Shares Outstanding Assuming Dilution	99,504,400	97,232,288	98,529,160	93,125,939
Per Share Data:				
Basic Earnings per Share	\$0.32	\$ 0.14	\$0.56	\$0.32
Diluted Earnings per Share	\$0.32	\$ 0.14	\$0.56	\$0.32
Cash Dividends Declared per Common Share	\$0.09	\$ 0.08	\$0.17	\$0.16

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 June 30, 2018		For the Six Months Ended June 30, 2018	
	2017	2018	2017	2018
	(dollars in thousands)			
Net Income	\$32,081	\$14,013	\$55,351	\$29,901
Other comprehensive (loss) income, before tax benefit (expense):				
Unrealized holding gains (losses) on securities arising during the period	660	1,702	(3,322 )	4,245
Less: reclassification adjustment for gains on securities included in net income	(5,262 )	49	(8,102 )	(603 )
Unrealized holding gains (losses) on derivatives arising during the period	97	(66 )	(33 )	(582 )
Less: reclassification adjustment for losses (gains) on derivatives included in net income	10	(5 )	10	73
Total other comprehensive (loss) income, before tax benefit (expense)	(4,495 )	1,680	(11,447 )	3,133
Income tax benefit (expense) related to items of other comprehensive (loss) income	943	(588 )	2,403	(1,097 )
Total other comprehensive (loss) income	(3,552 )	1,092	(9,044 )	2,036
Comprehensive Income	\$28,529	\$15,105	\$46,307	\$31,937

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				55,351			55,351
Other comprehensive loss					(9,044)		(9,044)
Cash dividends declared (\$0.17 per share)				(16,835)			(16,835)
Treasury stock acquired	(72,645)					(1,084)	(1,084)
Treasury stock reissued	2,908,234		21,579	—		22,447	44,026
Restricted stock	72,500	—	560	—		(316)	244
Balance at June 30, 2018	100,364,567	\$ 113,915	\$ 492,262	\$ 477,276	\$ (16,561)	\$(106,107)	\$ 960,785
	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				29,901			29,901
Other comprehensive income					2,036		2,036
Cash dividends declared (\$0.16 per share)				(14,917)			(14,917)
Treasury stock acquired	(81,696)					(1,141)	(1,141)
Treasury stock reissued	181,211		1,170	—		1,387	2,557
Restricted stock	25,028	—	138	—		221	359
Common stock issuance	8,351,447	8,352	102,389				110,741
Balance at June 30, 2017	97,483,067	\$ 113,915	\$ 470,123	\$ 427,748	\$ (4,991)	\$(127,330)	\$ 879,465

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



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months Ended June 30,	
	2018	2017
	(dollars in thousands)	
Operating Activities		
Net income	\$55,351	\$29,901
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	8,071	1,620
Deferred tax expense	1,468	3,968
Depreciation and amortization	3,262	4,414
Net gains on securities and other assets	(14,192 )	(2,209 )
Net amortization of premiums and discounts on securities	1,554	1,782
Income from increase in cash surrender value of bank owned life insurance	(2,941 )	(2,741 )
(Increase) decrease in interest receivable	(1,150 )	242
Mortgage loans originated for sale	(83,265 )	(70,521 )
Proceeds from sale of mortgage loans	93,518	71,464
Increase in interest payable	383	857
Decrease in income taxes payable	(92 )	(764 )
Distribution from unconsolidated subsidiary	9,000	—
Other-net	(10,362 )	3,729
Net cash provided by operating activities	60,605	41,742
Investing Activities		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	23,926	22,227
Purchases	(5,506 )	(101,372 )
Transactions with securities available for sale:		
Proceeds from sales	15,939	103,618
Proceeds from maturities and redemptions	78,842	66,189
Purchases	(218,885 )	(85,220 )
Purchases of FHLB stock	(25,110 )	(22,329 )
Proceeds from the redemption of FHLB stock	32,881	27,736
Proceeds from bank owned life insurance	772	—
Proceeds from sale of loans	27,985	8,501
Proceeds from sale of other assets	1,434	2,744
Acquisition, net of cash acquired	507	3,188
Net increase in loans	(78,435 )	(125,791 )
Purchases of premises and equipment and other assets	(4,703 )	(4,486 )
Net cash used in investing activities	(150,353 )	(104,995 )
Financing Activities		
Net increase in federal funds purchased	16,000	—
Net decrease in other short-term borrowings	(178,279 )	(21,806 )
Net increase in deposits	191,782	101,501
Repayments of other long-term debt	(23,290 )	(291 )
Repayments of capital lease obligation	(185 )	(86 )

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Proceeds from other long-term debt	98,120	—
Dividends paid	(16,835 )	(14,917 )
Proceeds from reissuance of treasury stock	208	228
Purchase of treasury stock	(1,084 )	(1,141 )
Net cash provided by financing activities	86,437	63,488
Net (decrease) increase in cash and cash equivalents	(3,311 )	235
Cash and cash equivalents at January 1	107,292	115,677
Cash and cash equivalents at June 30	\$103,981	\$115,912

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

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 six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year of 2018. These interim financial statements should be read in conjunction with First Commonwealth's 2017 Annual Report on Form 10-K.

Adoption of New Accounting Standards

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

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

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and when that assessment indicates that impairment exists, requiring the entity to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the

exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing bank deposits. Generally, federal funds are sold for one-day periods.

## Note 2 Acquisition

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

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

## Consideration Paid

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

## Fair Value of Assets Acquired

Cash and cash equivalents	17,907
FHLB Stock	3,261
Loans	184,506
Premises and other equipment	409
Core deposit intangible	1,248
Other assets	1,687
Total assets acquired	209,018

## Fair Value of Liabilities Assumed

Deposits	141,281
Federal Home Loan Bank borrowings	22,988
Other liabilities	5,016
Total liabilities assumed	169,285

Total Fair Value of Identifiable Net Assets	39,733
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Goodwill	\$ 19,228
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The goodwill of \$19.2 million arising from the acquisition represents the value of synergies and economies of scale expected from combining the operations of the Company with Garfield Acquisition Corporation.

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

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

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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)

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

The fair value of the 2,745,098 common shares issued was determined based on the market price of the Company's common shares on the acquisition date. The fair value of the acquired loans, customer deposit intangible, other assets and assumed deposits may change during the provisional period, which may last up to twelve months subsequent to the acquisition date as we are in the process of finalizing our valuations. The Company may obtain additional information to refine the valuation of the aforementioned items and adjust the recorded fair value, although such adjustments are not expected to be significant. Adjustments recorded to the acquired assets and liabilities will be applied prospectively in accordance with ASU No. 2015-16, "Business Combinations."

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

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

## Note 3 Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income ("OCI") in the Condensed Consolidated Statements of Comprehensive Income. Reclassification adjustments related to securities available for sale are included in the "Net securities gains" line and reclassification adjustments related to losses on derivatives are included in the "Other operating expenses" line in the Condensed Consolidated Statements of Income.

	For the Six Months Ended June 30,					
	2018			2017		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	\$(3,322 )	\$ 698	\$(2,624)	\$4,245	\$(1,486 )	\$2,759
Reclassification adjustment for gains on securities included in net income	(8,102 )	1,701	(6,401 )	(603 )	211	(392 )
Total unrealized (losses) gains on securities	(11,424 )	2,399	(9,025 )	3,642	(1,275 )	2,367
Unrealized losses on derivatives:						
Unrealized holding losses on derivatives arising during the period	(33 )	7	(26 )	(582 )	204	(378 )
Reclassification adjustment for losses on derivatives included in net income	10	(3 )	7	73	(26 )	47
Total unrealized losses on derivatives	(23 )	4	(19 )	(509 )	178	(331 )
Total other comprehensive (loss) income	\$(11,447)	\$2,403	\$(9,044)	\$3,133	\$(1,097)	\$2,036

## 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 June 30,					
	2018			2017		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding gains on securities arising during the period	\$660	\$ (139 )	\$521	\$1,702	\$ (596 )	\$1,106
Reclassification adjustment for (gains) losses on securities included in net income	(5,262 )	1,105	(4,157 )	49	(17 )	32
Total unrealized (losses) gains on securities	(4,602 )	966	(3,636 )	1,751	(613 )	1,138
Unrealized gains (losses) on derivatives:						
Unrealized holding gains (losses) on derivatives arising during the period	97	(20 )	77	(66 )	23	(43 )
Reclassification adjustment for losses (gains) on derivatives included in net income	10	(3 )	7	(5 )	2	(3 )
Total unrealized gains (losses) on derivatives	107	(23 )	84	(71 )	25	(46 )
Total other comprehensive (loss) income	\$(4,495)	\$ 943	\$(3,552)	\$1,680	\$ (588 )	\$1,092

The following table details the change in components of OCI for the six months ended June 30:

	2018			2017				
	Securities Available for Sale	Post-Retirement Obligation	Derivatives Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Securities Available for Sale	Post-Retirement Obligation	Derivatives Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)
	(dollars in thousands)							
Balance at December 31	\$(6,166 )	\$ 299	\$ (306 )	\$(6,173 )	\$(7,455)	\$ 225	\$ 203	\$(7,027 )
Cumulative effect of adoption of ASU 2018-02	(1,344 )	—	—	(1,344 )	—	—	—	—
Balance at January 1	(7,510 )	299	(306 )	(7,517 )	(7,455 )	225	203	(7,027 )
Other comprehensive (loss) income before reclassification adjustment	(2,624 )	—	(26 )	(2,650 )	2,759	—	(378 )	2,381
Amounts reclassified from accumulated other comprehensive (loss) income	(6,401 )	—	7	(6,394 )	(392 )	—	47	(345 )
Net other comprehensive (loss) income during the period	(9,025 )	—	(19 )	(9,044 )	2,367	—	(331 )	2,036
Balance at June 30	\$(16,535)	\$ 299	\$ (325 )	\$(16,561 )	\$(5,088)	\$ 225	\$ (128 )	\$(4,991 )



## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Note 4 Supplemental Cash Flow Disclosures

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

	2018	2017
	(dollars in thousands)	
Cash paid during the period for:		
Interest	\$15,856	\$8,917
Income taxes	11,000	11,394
Non-cash investing and financing activities:		
Loans transferred to other real estate owned and repossessed assets	2,532	1,519
Loans transferred from held to maturity to held for sale	25,397	9,053
Gross (decrease) increase in market value adjustment to securities available for sale	(11,424 )	3,642
Gross decrease in market value adjustment to derivatives	(23 )	(508 )
Noncash treasury stock reissuance	2,257	2,258
Net assets acquired through acquisition	21,826	37,087
Proceeds from death benefit on bank-owned life insurance not received	1,312	—

## Note 5 Earnings per Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average common shares issued	113,914,902	113,731,354	113,914,902	109,669,968
Average treasury stock shares	(14,460,352 )	(16,435,520 )	(15,409,475 )	(16,481,109 )
Average deferred compensation shares	(37,411 )	—	(37,411 )	—
Average unearned nonvested shares	(112,130 )	(112,235 )	(93,772 )	(109,313 )
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	99,305,009	97,183,599	98,374,244	93,079,546
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	161,989	48,689	117,505	46,393
Additional common stock equivalents (deferred compensation) used to calculate diluted earnings per share	37,411	—	37,411	—
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	99,504,409	97,232,288	98,529,160	93,125,939

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 six months ended June 30 because to do so would have been antidilutive.

	2018			2017		
	Shares	Price Range		Shares	Price Range	
	From	To	From	To	From	To
Restricted Stock	55,607	\$13.96	\$14.49	26,022	\$9.26	\$13.96
Restricted Stock Units	61,065	\$14.17	\$15.83	24,375	\$15.09	\$15.09



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Note 6 Commitments and Contingent Liabilities

## Commitments and Letters of Credit

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

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

	June 30, 2018	December 31, 2017
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$1,794,348	\$1,840,180
Financial standby letters of credit	17,907	17,946
Performance standby letters of credit	21,468	20,472
Commercial letters of credit	1,055	1,149

The notional amounts outstanding as of June 30, 2018 include amounts issued in 2018 of \$1.0 million in financial standby letters of credit and \$0.9 million in performance standby letters of credit. There were no commercial letters of credit issued in 2018 or 2017. A liability of \$0.2 million has been recorded as of June 30, 2018 and December 31, 2017, which represents the estimated fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued.

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. Management's evaluation of the credit risk related to these commitments resulted in the recording of a liability of \$5.1 million and \$5.2 million as of June 30, 2018 and December 31, 2017, respectively. 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 June 30, 2018, management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability arising out of litigation pending or threatened against First Commonwealth or its subsidiaries will be material to First Commonwealth's consolidated financial position. On at least a quarterly basis, First Commonwealth assesses its liabilities and contingencies in connection with such legal proceedings. For those matters where it is probable that First Commonwealth will incur losses and the amounts of the losses can be reasonably estimated, First Commonwealth records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although not considered probable, the range of reasonably possible losses for such matters in the aggregate, beyond the existing recorded liability (if any), is between \$0 and \$1 million. Although First Commonwealth does not believe that the outcome of pending litigation will be material to First Commonwealth's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations and cash flows for a particular reporting period in the future.

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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. At a hearing on July 23, 2018, the Court granted final approval of the settlement and dismissed all claims against First Commonwealth. First Commonwealth expects that the settlement will be completed during the third quarter of 2018. 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 7 Investment Securities

## Securities Available for Sale

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

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	\$9,706	\$ 576	\$(103 )	\$10,179	\$10,556	\$ 789	\$(7 )	\$11,338
Mortgage-Backed Securities – Commercial	121,996	36	(1,747 )	120,285	24,611	—	(462 )	24,149
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	690,692	1,344	(21,284 )	670,752	632,422	2,622	(9,489 )	625,555
Other Government-Sponsored Enterprises	100	—	—	100	1,098	—	(1 )	1,097
Obligations of States and Political Subdivisions	27,087	120	(39 )	27,168	27,083	327	—	27,410
Corporate Securities	20,902	497	(310 )	21,089	15,907	590	(4 )	16,493
Pooled Trust Preferred Collateralized Debt Obligations	—	—	—	—	27,499	526	(4,379 )	23,646
Total Debt Securities	870,483	2,573	(23,483 )	849,573	739,176	4,854	(14,342 )	729,688
Equities	1,670	—	—	1,670	1,670	—	—	1,670
Total Securities Available for Sale	\$872,153	\$ 2,573	\$(23,483 )	\$851,243	\$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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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	\$4,099	\$4,078
Due after 1 but within 5 years	15,728	15,443
Due after 5 but within 10 years	26,339	26,416
Due after 10 years	1,923	2,420
	48,089	48,357
Mortgage-Backed Securities (a)	822,394	801,216
Total Debt Securities	\$870,483	\$849,573

Mortgage-Backed Securities include an amortized cost of \$131.7 million and a fair value of \$130.4 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$690.7 million and a fair value of \$670.8 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 six months ended June 30:

	2018	2017
	(dollars in thousands)	
Proceeds from sales	\$ 15,939	\$ 103,618
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	\$4,719	\$—
Gross losses	—	(49 )
	4,719	(49 )
Maturities and impairment		
Gross gains	3,383	712
Gross losses	—	(60 )
	3,383	652
Net gains and impairment	\$ 8,102	\$ 603

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

Securities available for sale with an estimated fair value of \$720.2 million and \$569.0 million were pledged as of June 30, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or permitted by law.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Securities Held to Maturity

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

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	\$3,867	\$ —	\$(128)	\$3,739	\$3,925	\$ —	\$(14)	\$3,911
Mortgage-Backed Securities-Commercial	56,991	—	(2,509)	54,482	58,249	—	(1,394)	56,855
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	285,624	—	(9,241)	276,383	305,126	10	(2,552)	302,584
Mortgage-Backed Securities – Commercial	13,659	—	(369)	13,290	14,056	—	(71)	13,985
Obligations of States and Political Subdivisions	42,478	60	(655)	41,883	40,540	335	(161)	40,714
Debt Securities Issued by Foreign Governments	400	—	(9)	391	200	—	—	200
Total Securities Held to Maturity	\$403,019	\$ 60	\$(12,911)	\$390,168	\$422,096	\$ 345	\$(4,192)	\$418,249

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

	Amortized Cost	Estimated Fair Value
(dollars in thousands)		
Due within 1 year	\$86	\$86
Due after 1 but within 5 years	3,830	3,807
Due after 5 but within 10 years	37,340	36,775
Due after 10 years	1,622	1,606
	42,878	42,274
Mortgage-Backed Securities (a)	360,141	347,894
Total Debt Securities	\$403,019	\$390,168

Mortgage-Backed Securities include an amortized cost of \$60.9 million and a fair value of \$58.2 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$299.2 million and a fair value of \$289.7 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 \$365.3 million and \$338.3 million were pledged as of June 30, 2018 and December 31, 2017, respectively, to secure public deposits and for other purposes required or permitted by



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Note 8 Impairment of Investment Securities

## Securities Available for Sale and Held to Maturity

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

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

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

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

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities – Residential	\$7,106	\$(231 )	\$—	\$—	\$7,106	\$(231 )
Mortgage-Backed Securities – Commercial	71,408	(1,747 )	54,482	(2,509 )	125,890	(4,256 )
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	523,619	(13,093 )	360,389	(17,432 )	884,008	(30,525 )
Mortgage-Backed Securities – Commercial	13,290	(369 )	—	—	13,290	(369 )
Other Government-Sponsored Enterprises	—	—	100	—	100	—
Obligations of States and Political Subdivisions	31,005	(413 )	3,499	(281 )	34,504	(694 )
Debt securities issued by foreign governments	391	(9 )	—	—	391	(9 )
Corporate Securities	18,669	(310 )	—	—	18,669	(310 )
Total Securities	\$665,488	\$(16,172 )	\$418,470	\$(20,222 )	\$1,083,958	\$(36,394 )

At June 30, 2018, fixed income securities issued by U.S. Government-sponsored enterprises and U.S. Government agencies comprised 85% and 12%, respectively, of total unrealized losses due to changes in market interest rates. At June 30, 2018, there are 157 debt securities in an unrealized loss position.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

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

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

During the six-months ended June 30, 2018, all of our pooled trust preferred collateralized debt obligations were liquidated either through a successful auction call or sale. At December 31, 2017, the pooled trust preferred securities had an amortized cost and estimated fair value of \$27.5 million and \$23.6 million, respectively. Other-than-temporary impairment charges were recognized on the pooled trust preferred securities in 2008, 2009 and 2010. The following table provides a cumulative roll forward of credit losses recognized in earnings for the trust preferred securities:

	For the Three Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
	2018	2017	2018	2017
	(dollars in thousands)			
Balance, beginning (a)	\$9,759	\$16,828	\$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)	(76 )	(218 )	(223 )	(446 )

Reduction for debt securities sold during the period	(9,164 )	—	(9,164 )	—
Reduction for debt securities called during the period	(519 )	—	(2,821 )	—
Balance, ending	\$—	\$16,610	\$—	\$16,610

(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 six 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 June 30, 2018 and 2017, there were no equity securities in an unrealized loss position.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## 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 June 30, 2018 and December 31, 2017, our FHLB stock totaled \$25.3 million and \$29.8 million, respectively, and is included in "Other investments" on the Condensed Consolidated Statements of Financial Condition. FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First Commonwealth evaluates impairment quarterly and has concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities during the three and six months ended June 30, 2018.

## Note 9 Loans and Allowance for Credit Losses

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

	June 30, 2018			December 31, 2017		
	Originated	Acquired	Total	Originated	Acquired	Total
	(dollars in thousands)					
Commercial, financial, agricultural and other	\$1,088,075	\$42,563	\$1,130,638	\$1,122,741	\$40,642	\$1,163,383
Real estate construction	250,695	9,130	259,825	242,905	5,963	248,868
Residential real estate	1,251,353	267,497	1,518,850	1,206,119	220,251	1,426,370
Commercial real estate	1,948,287	224,328	2,172,615	1,892,185	126,911	2,019,096
Loans to individuals	551,647	6,531	558,178	543,411	6,248	549,659
Total loans	\$5,090,057	\$550,049	\$5,640,106	\$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



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

are reviewed each quarter, at which time management analyzes the results, as well as other external statistics and factors related to loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

The following tables represent our credit risk profile by creditworthiness:

	June 30, 2018					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Originated loans						
Pass	\$ 1,011,631	\$ 250,695	\$ 1,239,626	\$ 1,908,710	\$ 551,492	\$ 4,962,154
Non-Pass						
OAEM	51,197	—	1,614	20,662	—	73,473
Substandard	18,409	—	10,113	18,915	155	47,592
Doubtful	6,838	—	—	—	—	6,838
Total Non-Pass	76,444	—	11,727	39,577	155	127,903
Total	\$ 1,088,075	\$ 250,695	\$ 1,251,353	\$ 1,948,287	\$ 551,647	\$ 5,090,057
Acquired loans						
Pass	\$ 37,075	\$ 9,130	\$ 263,650	\$ 219,437	\$ 6,515	\$ 535,807
Non-Pass						
OAEM	5,349	—	734	2,078	—	8,161
Substandard	139	—	3,113	2,813	16	6,081
Doubtful	—	—	—	—	—	—
Total Non-Pass	5,488	—	3,847	4,891	16	14,242
Total	\$ 42,563	\$ 9,130	\$ 267,497	\$ 224,328	\$ 6,531	\$ 550,049

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

## Portfolio Risks

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

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



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Age Analysis of Past Due Loans by Segment

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

	June 30, 2018				Nonaccrual	Total past due and nonaccrual	Current	Total
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing					
	(dollars in thousands)							
Originated loans								
Commercial, financial, agricultural and other	\$53	\$317	\$91	\$19,771	\$20,232	\$1,067,843	\$1,088,075	
Real estate construction	—	—	—	—	—	250,695	250,695	
Residential real estate	3,192	830	800	6,243	11,065	1,240,288	1,251,353	
Commercial real estate	448	1,727	160	3,824	6,159	1,942,128	1,948,287	
Loans to individuals	1,715	288	624	155	2,782	548,865	551,647	
Total	\$5,408	\$3,162	\$1,675	\$29,993	\$40,238	\$5,049,819	\$5,090,057	
Acquired loans								
Commercial, financial, agricultural and other	\$160	\$—	\$11	\$73	\$244	\$42,319	\$42,563	
Real estate construction	—	—	—	—	—	9,130	9,130	
Residential real estate	238	9	21	2,589	2,857	264,640	267,497	
Commercial real estate	—	—	—	2,030	2,030	222,298	224,328	
Loans to individuals	28	28	18	16	90	6,441	6,531	
Total	\$426	\$37	\$50	\$4,708	\$5,221	\$544,828	\$550,049	

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

	December 31, 2017			Nonaccrual	Total past due and nonaccrual	Current	Total
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing				
(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
<b>Total</b>	<b>\$9,292</b>	<b>\$1,883</b>	<b>\$1,745</b>	<b>\$28,442</b>	<b>\$41,362</b>	<b>\$4,965,999</b>	<b>\$5,007,361</b>
<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
<b>Total</b>	<b>\$190</b>	<b>\$36</b>	<b>\$109</b>	<b>\$2,235</b>	<b>\$2,570</b>	<b>\$397,445</b>	<b>\$400,015</b>

**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 June 30, 2018 and December 31, 2017, there were no nonaccrual loans held for sale. There was a gain of \$1.2 million recognized on the sale of an impaired commercial, financial, agricultural and other relationship during the six months ended

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2018. There were \$21 thousand in gains recognized in the same period in 2017 on the sale of an impaired commercial, financial, agricultural and other relationship.

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

	June 30, 2018		Related allowance	December 31, 2017		Related allowance
	Recorded investment	Unpaid principal balance		Recorded investment	Unpaid principal balance	
	(dollars in thousands)					
Originated loans:						
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$1,932	\$6,769		\$5,548	\$12,153	
Real estate construction	—	—		—	—	
Residential real estate	10,347	12,174		10,625	12,470	
Commercial real estate	4,463	7,073		5,155	5,489	
Loans to individuals	253	292		347	383	
Subtotal	16,995	26,308		21,675	30,495	
With an allowance recorded:						
Commercial, financial, agricultural and other	19,537	19,889	\$ 6,597	16,866	21,094	\$ 3,478
Real estate construction	—	—	—	—	—	—
Residential real estate	877	948	281	456	478	107
Commercial real estate	3,704	3,735	662	954	954	128
Loans to individuals	—	—	—	—	—	—
Subtotal	24,118	24,572	7,540	18,276	22,526	3,713
Total	\$41,113	\$50,880	\$ 7,540	\$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)

	June 30, 2018			December 31, 2017		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(dollars in thousands)					
Acquired loans						
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$73	\$73		\$436	\$449	
Real estate construction	—	—		—	—	
Residential real estate	2,534	3,056		666	965	
Commercial real estate	2,030	2,994		940	1,842	
Loans to individuals	16	17		17	17	
Subtotal	4,653	6,140		2,059	3,273	
With an allowance recorded:						
Commercial, financial, agricultural and other	—	—	\$ —	—	—	\$ —
Real estate construction	—	—	—	—	—	—
Residential real estate	97	112	61	93	122	4
Commercial real estate	—	—	—	137	150	29
Loans to individuals	—	—	—	—	—	—
Subtotal	97	112	61	230	272	33
Total	\$4,750	\$6,252	\$ 61	\$2,289	\$3,545	\$ 33

	For the Six Months Ended June 30, 2018				2017			
	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans	Originated Loans	Acquired Loans
	Average Interest recorded income	Average Interest recorded income	Average Interest recorded income	Average Interest recorded income	Average Interest recorded income	Average Interest recorded income	Average Interest recorded income	Average Interest 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	\$8,034	\$ 528	\$355	\$ —	\$13,888	\$ 289	\$36	\$ —
Real estate construction	—	—	—	—	—	—	50	—
Residential real estate	10,316	125	1,366	1	11,434	185	465	7
Commercial real estate	6,076	54	1,359	—	6,586	88	1,575	—
Loans to individuals	322	4	17	—	341	11	—	—
Subtotal	24,748	711	3,097	1	32,249	573	2,126	7
With an allowance recorded:								
Commercial, financial, agricultural and other	19,694	52	—	—	9,220	46	82	—
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	845	9	32	—	279	—	7	—
Commercial real estate	2,477	35	—	—	484	13	161	—
Loans to individuals	—	—	—	—	—	—	—	—
Subtotal	23,016	96	32	—	9,983	59	250	—

Total	\$47,764	\$ 807	\$3,129	\$ 1	\$42,232	\$ 632	\$2,376	\$ 7
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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 June 30,				2017			
	2018		2017		2017		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	\$6,793	\$ 481	\$299	\$ —	\$12,583	\$ 251	\$72	\$ —
Real estate construction	—	—	—	—	—	—	100	—
Residential real estate	10,334	64	1,962	1	11,339	110	623	7
Commercial real estate	6,086	23	1,692	—	6,596	34	3,151	—
Loans to individuals	292	3	16	—	344	9	—	—
Subtotal	23,505	571	3,969	1	30,862	404	3,946	7
With an allowance recorded:								
Commercial, financial, agricultural and other	22,812	23	—	—	8,813	20	164	—
Real estate construction	—	—	—	—	—	—	—	—
Residential real estate	880	5	65	—	332	—	14	—
Commercial real estate	3,551	34	—	—	481	6	160	—
Loans to individuals	—	—	—	—	—	—	—	—
Subtotal	27,243	62	65	—	9,626	26	338	—
Total	\$50,748	\$ 633	\$4,034	\$ 1	\$40,488	\$ 430	\$4,284	\$ 7

Unfunded commitments related to nonperforming loans were \$1.6 million at June 30, 2018 and \$2.4 million at December 31, 2017. After consideration of the requirements to draw and available collateral related to these commitments, a reserve of \$0.1 million and \$0.2 million was established for these off balance sheet exposures at June 30, 2018 and December 31, 2017, respectively.

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

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

	June 30, December	
	2018	31, 2017
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	\$11,162	\$11,563
Nonaccrual status	18,573	11,222
Total	\$29,735	\$22,785
Commitments		
Letters of credit	\$60	\$60
Unused lines of credit	1,572	54
Total	\$1,632	\$114





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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

## For the Six Months Ended June 30, 2018

	Type of Modification			Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve	
	Number of Contracts	Extend Maturity	Modify Rate				Modify Payments
	(dollars in thousands)						
Commercial, financial, agricultural and other	8	\$4,710	\$ —	\$ 11,679	\$ 16,389	\$ 11,972	\$ 4,095
Residential real estate	17	20	75	729	824	779	—
Commercial real estate	3	3,017	—	966	3,983	3,870	206
Loans to individuals	7	—	52	26	78	69	—
Total	35	\$7,747	\$ 127	\$ 13,400	\$ 21,274	\$ 16,690	\$ 4,301

## For the Six Months Ended June 30, 2017

	Type of Modification			Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve	
	Number of Contracts	Extend Maturity	Modify Rate				Modify Payments
	(dollars in thousands)						
Commercial, financial, agricultural and other	4	\$6,768	\$1,786	\$ —	\$ 8,554	\$ 6,422	\$ 960
Residential real estate	12	129	187	413	729	683	4
Commercial real estate	3	179	—	84	263	258	—
Loans to individuals	7	—	17	48	65	56	—
Total	26	\$7,076	\$1,990	\$ 545	\$ 9,611	\$ 7,419	\$ 964

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 six months ended June 30, 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.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

For the Three Months Ended June 30, 2018

Type of Modification	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total	Post-	Specific Reserve
					Pre-Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment	
(dollars in thousands)							
Commercial, financial, agricultural and other	7	\$—	\$—	\$11,679	\$ 11,679	\$ 11,591	\$ 3,714
Residential real estate	6	—	—	383	383	381	—
Commercial real estate	2	—	—	966	966	960	—
Loans to individuals	4	—	24	14	38	35	—
Total	19	\$—	\$ 24	\$ 13,042	\$ 13,066	\$ 12,967	\$ 3,714

For the Three Months Ended, June 30, 2017

Type of Modification	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total	Post-	Specific Reserve
					Pre-Modification Outstanding Recorded Investment	Modification Outstanding Recorded Investment	
(dollars in thousands)							
Commercial, financial, agricultural and other	3	\$6,768	\$1,745	\$ —	\$ 8,513	\$ 6,385	\$ 960
Residential real estate	5	—	85	108	193	189	4
Commercial real estate	1	—	—	68	68	68	—
Loans to individuals	4	—	3	17	20	17	—
Total	13	\$6,768	\$1,833	\$ 193	\$ 8,794	\$ 6,659	\$ 964

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 June 30, 2018 and 2017, \$24 thousand and \$91 thousand, respectively, of total rate modifications represent loans with modifications to the rate as well as payment as a result of re-amortization. For both 2018 and 2017 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

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

	2018		2017	
	Number of Contracts	Investment	Number of Contracts	Investment
(dollars in thousands)				
Commercial, financial, agricultural and other	1	\$ 302	—	\$ —
Residential real estate	—	\$ —	4	\$ 103

Total 1 \$ 302 4 \$ 103

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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)

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 June 30:

	2018	2017	
	Number of	Number of	
	Converted	Converted	
	Contracts	Contracts	
	(dollars in thousands)		
Residential real estate	\$ —	\$ 103	
Total	\$ —	\$ 103	

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

For the Six Months Ended June 30, 2018

Commercial,  
financial, Real estate  
agricultural construction  
and other  
Residential real estate  
Commercial real estate  
Loans to individuals  
Total  
(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	(861 )	—	(681 )	(2,411 )	(2,245 )	(6,198 )
Recoveries	618	1	196	87	307	1,209
Provision (credit)	1,907	(88 )	1,288	2,727	2,061	7,895
Ending balance	25,082	1,262	3,556	17,731	3,527	51,158
Acquired loans:						
Beginning balance	11	—	6	29	—	46
Charge-offs	(93 )	—	(48 )	—	(11 )	(152 )
Recoveries	18	6	50	—	12	86
Provision (credit)	87	(6 )	119	(23 )	(1 )	176
Ending balance	23	—	127	6	—	156
Total ending balance	\$25,105	\$ 1,262	\$ 3,683	\$ 17,737	\$ 3,527	\$51,314
Ending balance: individually evaluated for impairment	\$6,597	\$ —	\$ 342	\$ 662	\$ —	\$7,601
Ending balance: collectively evaluated for impairment	18,508	1,262	3,341	17,075	3,527	43,713
Loans:						
Ending balance	1,130,638	259,825	1,518,850	2,172,615	558,178	5,640,106
Ending balance: individually evaluated for impairment	21,087	—	5,175	9,037	—	35,299
Ending balance: collectively evaluated for impairment	1,109,551	259,825	1,513,675	2,163,578	558,178	5,604,807

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

	For the Six Months Ended June 30, 2017					
	Commercial, financial, Real estate Residential Commercial Loans to agricultural construction real estate real estate individuals Total and other (dollars in thousands)					
Allowance for credit losses:						
Originated loans:						
Beginning balance	\$35,974	\$ 577	\$ 2,492	\$ 6,619	\$ 4,504	\$50,166
Charge-offs	(5,277 )	—	(610 )	(60 )	(2,170 )	(8,117 )
Recoveries	3,636	96	192	146	248	4,318
Provision (credit)	(961 )	95	42	602	1,750	1,528
Ending balance	33,372	768	2,116	7,307	4,332	47,895
Acquired loans:						
Beginning balance	—	—	19	—	—	19
Charge-offs	—	—	(9 )	—	(8 )	(17 )
Recoveries	—	1	27	4	46	78
Provision (credit)	118	(1 )	(33 )	46	(38 )	92
Ending balance	118	—	4	50	—	172
Total ending balance	\$33,490	\$ 768	\$ 2,120	\$ 7,357	\$ 4,332	\$48,067
Ending balance: individually evaluated for impairment	\$1,791	\$ —	\$ 35	\$ 309	\$ —	\$2,135
Ending balance: collectively evaluated for impairment	31,699	768	2,085	7,048	4,332	45,932
Loans:						
Ending balance	1,199,800	249,255	1,416,926	1,963,001	545,800	5,374,782
Ending balance: individually evaluated for impairment	16,917	—	6,978	8,697	—	32,592
Ending balance: collectively evaluated for impairment	1,182,883	249,255	1,409,948	1,954,304	545,800	5,342,190

## For the Three Months Ended June 30, 2018

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

Allowance for credit losses:						
Originated loans:						
Beginning balance	\$27,532	\$ 1,114	\$ 3,141	\$ 18,494	\$ 3,416	\$53,697
Charge-offs	(571 )	—	(226 )	(2,243 )	(1,076 )	(4,116 )
Recoveries	362	—	121	18	112	613
Provision (credit)	(2,241 )	148	520	1,462	1,075	964
Ending balance	25,082	1,262	3,556	17,731	3,527	51,158
Acquired loans:						
Beginning balance	20	—	13	2	—	35

Charge-offs	(93 )	—	(32 )	—	(7 )	(132 )
Recoveries	11	—	33	—	5	49
Provision (credit)	85	—	113	4	2	204
Ending balance	23	—	127	6	—	156
Total ending balance	\$25,105	\$ 1,262	\$ 3,683	\$ 17,737	\$ 3,527	\$51,314

## 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, June 30, 2017  
Commercial,  
financial, Real estate Residential Commercial Loans to  
agricultural construction real estate real estate individuals Total  
and other  
(dollars in thousands)

## Allowance for credit losses:

## Originated loans:

Beginning balance	\$34,701	\$ 614	\$ 2,414	\$ 6,582	\$ 4,334	\$48,645
Charge-offs	(1,452 )	—	(145 )	(29 )	(972 )	(2,598 )
Recoveries	3,268	42	70	29	120	3,529
Provision (credit)	(3,145 )	112	(223 )	725	850	(1,681 )
Ending balance	33,372	768	2,116	7,307	4,332	47,895

## Acquired loans:

Beginning balance	—	—	31	—	—	31
Charge-offs	—	—	(1 )	—	(1 )	(2 )
Recoveries	—	1	21	4	45	71
Provision (credit)	118	(1 )	(47 )	46	(44 )	72
Ending balance	118	—	4	50	—	172
Total ending balance	\$33,490	\$ 768	\$ 2,120	\$ 7,357	\$ 4,332	\$48,067

## Note 10 Income Taxes

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

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

## Note 11 Fair Values of Assets and Liabilities

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

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

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

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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)

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

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

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

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

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

Loans held for sale 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 12, “Derivatives.”

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

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

Interest rate derivatives also include interest rate forwards entered into to hedge residential mortgage loans held for sale and the related interest-rate lock commitments. This includes forward commitments to sell mortgage loans. The

fair value of these derivative financial instruments are based on derivative market data inputs as of the valuation date and the underlying value of mortgage loans for rate lock commitments.

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the valuation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The assets included in Level 3 are pooled trust preferred collateralized debt obligations, non-marketable equity investments, certain interest rate derivatives, certain other real estate owned and certain impaired loans. Level 3 assets at December 31, 2017 included pooled trust preferred collateralized debt obligations with an estimated fair value of \$23.6 million. During the six-months ended June 30, 2018, the entire portfolio of trust preferred securities were liquidated either by a successful auction call or by sale. These securities were considered level 3 because there was little or no active trading since 2009; therefore, it is more appropriate to determine estimated fair value using a discounted cash flow analysis. When determining the fair value of these securities, the discount rate applied to the cash flows was determined by evaluating the current market yields for comparable corporate and structured credit products along with an evaluation of the risks associated with the cash flows of the comparable security.

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

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

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

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

	Fair Value (dollars in thousands)	Valuation Technique	Unobservable Inputs	Range / (weighted average)
Equities	1,670	Par Value	N/A	N/A
Impaired Loans	1,224	(a) Reserve study	Discount rate	10.00%
			Gas per MMBTU	\$2.81 - \$3.35 (b)
			Oil per BBL/d	\$51.59 - \$59.55 (b)
	13,557	(a) Discounted Cash Flow	Discount Rate	1.90% - 11.50%
Limited Partnership Investments	2,297	Par Value	N/A	N/A

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

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	\$ 10,179	\$ —	\$ —	\$ 10,179
Mortgage-Backed Securities - Commercial	—	120,285	—	120,285
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	670,752	—	670,752
Other Government-Sponsored Enterprises	—	100	—	100
Obligations of States and Political Subdivisions	—	27,168	—	27,168
Corporate Securities	—	21,089	—	21,089
Total Debt Securities	—	849,573	—	849,573
Equities	—	—	1,670	1,670
Total Securities Available for Sale	—	849,573	1,670	851,243
Other Investments	—	25,327	—	25,327
Loans Held for Sale	—	7,038	—	7,038
Other Assets(a)	—	6,839	2,297	9,136
Total Assets	\$ 888,777	\$ 3,967	\$ —	\$ 892,744
Other Liabilities(a)	\$ 7,307	\$ —	\$ —	\$ 7,307
Total Liabilities	\$ 7,307	\$ —	\$ —	\$ 7,307

(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 six months ended June 30, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	2018			
	Pooled			
	Trust			
	Preferred	Equities	Other	Total
	Collateralized	Debt	Assets	
	Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$23,646	\$ 1,670	\$2,143	\$27,459
Total gains or losses				
Included in earnings	8,102	—	—	8,102
Included in other comprehensive income	(118 )	—	—	(118 )
Purchases, issuances, sales and settlements				
Purchases	—	—	154	154
Issuances	—	—	—	—
Sales	(12,289 )	—	—	(12,289 )
Settlements	(19,341 )	—	—	(19,341 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$—	\$ 1,670	\$2,297	\$3,967

	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	410	—	—	410
Purchases, issuances, sales and settlements				
Purchases	—	—	547	547
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(54 )	—	—	(54 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$33,648	\$ 1,670	\$1,477	\$36,795

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



## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

	2018			
	Pooled	Trust	Preferred	Other
	Collateralized	Equities	Assets	Total
	Debt Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$14,132	\$1,670	\$2,292	\$18,094
Total gains or losses				
Included in earnings	5,262	—	—	5,262
Included in other comprehensive income	(4,647 )	—	—	(4,647 )
Purchases, issuances, sales and settlements				
Purchases	—	—	5	5
Issuances	—	—	—	—
Sales	(12,289 )	—	—	(12,289 )
Settlements	(2,458 )	—	—	(2,458 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$—	\$1,670	\$2,297	\$3,967
	2017			
	Pooled	Trust	Preferred	Other
	Collateralized	Equities	Assets	Total
	Debt Obligations			
	(dollars in thousands)			
Balance, beginning of period	\$33,741	\$1,670	\$1,340	\$36,751
Total gains or losses				
Included in earnings	—	—	—	—
Included in other comprehensive income	(87 )	—	—	(87 )
Purchases, issuances, sales and settlements				
Purchases	—	—	137	137
Issuances	—	—	—	—
Sales	—	—	—	—
Settlements	(6 )	—	—	(6 )
Transfers from Level 3	—	—	—	—
Transfers into Level 3	—	—	—	—
Balance, end of period	\$33,648	\$1,670	\$1,477	\$36,795

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





## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

	June 30, 2018		
	Level 2	Level 3	Total
	(dollars in thousands)		
Impaired loans	\$12,864	\$25,398	\$38,262
Other real estate owned	4,031	—	4,031
Total Assets	\$16,895	\$25,398	\$42,293
	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 June 30, 2018		For the Six Months Ended June 30, 2017	
	(dollars in thousands)			
Impaired loans	\$992	\$(238)	\$(6,544)	\$(1,278)
Other real estate owned	(437)	(1,094)	(437)	(1,125)
Total losses	\$555	\$(1,332)	\$(6,981)	\$(2,403)

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 \$3.8 million as of June 30, 2018 and consists primarily of residential and commercial real estate properties in Pennsylvania. We review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less estimated cost to sell, as determined by valuation techniques appropriate in the circumstances.

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

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

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

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

June 30, 2018

Fair Value Measurements Using:

Carrying Amount	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
Financial assets				
Cash and due from banks	\$101,744	\$101,744	\$101,744	\$ —
Interest-bearing deposits	2,237	2,237	2,237	—
Securities available for sale	851,243	851,243	—	849,573
Securities held to maturity	403,019	390,168	—	390,168
Other investments	25,327	25,327	—	25,327
Loans held for sale	7,038	7,038	—	7,038
Loans	5,640,106	5,648,478	—	12,864
Financial liabilities				
Deposits	5,913,574	5,913,538	—	5,913,538
Short-term borrowings	545,187	545,095	—	545,095
Subordinated debt	170,304	170,561	—	—
Long-term debt	7,859	8,012	—	8,012
Capital lease obligation	7,405	7,405	—	7,405

December 31, 2017

Fair Value Measurements Using:

Carrying Amount	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
Financial assets				
Cash and due from banks	\$98,624	\$98,624	\$98,624	\$ —
Interest-bearing deposits	8,668	8,668	8,668	—
Securities available for sale	731,358	731,358	—	706,042
Securities held to maturity	422,096	418,249	—	418,249
Other investments	29,837	29,837	—	29,837
Loans held for sale	14,850	14,850	—	14,850
Loans	5,407,376	5,443,434	—	23,249
Financial liabilities				
				5,420,185