

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form 10-Q  
November 09, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2015

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  Non-accelerated filer

(Do not check if a smaller reporting company)

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

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of November 6, 2015, was 88,961,268.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q  
INDEX

|                                                                                                      | PAGE |
|------------------------------------------------------------------------------------------------------|------|
| PART I. <u>Financial Information</u>                                                                 |      |
| ITEM 1. <u>Financial Statements and Supplementary Data</u>                                           |      |
| <u>Included in Part I of this report:</u>                                                            |      |
| <u>First Commonwealth Financial Corporation and Subsidiaries</u>                                     |      |
| <u>Condensed Consolidated Statements of Financial Condition (Unaudited)</u>                          | 3    |
| <u>Condensed Consolidated Statements of Income (Unaudited)</u>                                       | 4    |
| <u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>                         | 5    |
| <u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)</u>              | 6    |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>                                   | 7    |
| <u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>                            | 8    |
| ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 38   |
| ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 60   |
| ITEM 4. <u>Controls and Procedures</u>                                                               | 60   |
| PART II. <u>Other Information</u>                                                                    |      |
| ITEM 1. <u>Legal Proceedings</u>                                                                     | 61   |
| ITEM 1A. <u>Risk Factors</u>                                                                         | 61   |
| ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 62   |
| ITEM 3. <u>Defaults Upon Senior Securities</u>                                                       | 62   |
| ITEM 4. <u>Mine Safety Disclosures</u>                                                               | 62   |
| ITEM 5. <u>Other Information</u>                                                                     | 62   |
| ITEM 6. <u>Exhibits</u>                                                                              | 63   |
| <u>Signatures</u>                                                                                    | 64   |

Table of Contents

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

|                                                                                                                                                                                                                                                         | September 30,<br>2015                        | December 31,<br>2014 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                         | (dollars in thousands,<br>except share data) |                      |
| <b>Assets</b>                                                                                                                                                                                                                                           |                                              |                      |
| Cash and due from banks                                                                                                                                                                                                                                 | \$69,235                                     | \$72,276             |
| Interest-bearing bank deposits                                                                                                                                                                                                                          | 3,529                                        | 2,262                |
| Securities available for sale, at fair value                                                                                                                                                                                                            | 1,050,733                                    | 1,309,819            |
| Securities held to maturity, at amortized cost (Fair value of \$154,837 at September 30, 2015)                                                                                                                                                          | 154,035                                      | —                    |
| Other investments                                                                                                                                                                                                                                       | 53,976                                       | 44,545               |
| Loans held for sale                                                                                                                                                                                                                                     | 4,986                                        | 2,502                |
| Loans:                                                                                                                                                                                                                                                  |                                              |                      |
| Portfolio loans                                                                                                                                                                                                                                         | 4,575,735                                    | 4,457,308            |
| Allowance for credit losses                                                                                                                                                                                                                             | (48,518                                      | ) (52,051            |
| Net loans                                                                                                                                                                                                                                               | 4,527,217                                    | 4,405,257            |
| Premises and equipment, net                                                                                                                                                                                                                             | 62,812                                       | 64,989               |
| Other real estate owned                                                                                                                                                                                                                                 | 10,542                                       | 7,197                |
| Goodwill                                                                                                                                                                                                                                                | 161,429                                      | 161,429              |
| Amortizing intangibles, net                                                                                                                                                                                                                             | 1,196                                        | 1,665                |
| Bank owned life insurance                                                                                                                                                                                                                               | 181,278                                      | 177,567              |
| Other assets                                                                                                                                                                                                                                            | 103,781                                      | 110,777              |
| <b>Total assets</b>                                                                                                                                                                                                                                     | <b>\$6,384,749</b>                           | <b>\$6,360,285</b>   |
| <b>Liabilities</b>                                                                                                                                                                                                                                      |                                              |                      |
| Deposits (all domestic):                                                                                                                                                                                                                                |                                              |                      |
| Noninterest-bearing                                                                                                                                                                                                                                     | \$1,077,234                                  | \$989,027            |
| Interest-bearing                                                                                                                                                                                                                                        | 3,084,256                                    | 3,326,484            |
| <b>Total deposits</b>                                                                                                                                                                                                                                   | <b>4,161,490</b>                             | <b>4,315,511</b>     |
| Short-term borrowings                                                                                                                                                                                                                                   | 1,329,794                                    | 1,105,876            |
| Subordinated debentures                                                                                                                                                                                                                                 | 72,167                                       | 72,167               |
| Other long-term debt                                                                                                                                                                                                                                    | 39,052                                       | 89,459               |
| <b>Total long-term debt</b>                                                                                                                                                                                                                             | <b>111,219</b>                               | <b>161,626</b>       |
| Other liabilities                                                                                                                                                                                                                                       | 59,478                                       | 61,127               |
| <b>Total liabilities</b>                                                                                                                                                                                                                                | <b>5,661,981</b>                             | <b>5,644,140</b>     |
| <b>Shareholders' Equity</b>                                                                                                                                                                                                                             |                                              |                      |
| Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued                                                                                                                                                                      | —                                            | —                    |
| Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued at September 30, 2015 and December 31, 2014, and 88,961,268 and 91,723,028 shares outstanding at September 30, 2015 and December 31, 2014, respectively | 105,563                                      | 105,563              |
| Additional paid-in capital                                                                                                                                                                                                                              | 365,950                                      | 365,615              |
| Retained earnings                                                                                                                                                                                                                                       | 374,247                                      | 353,027              |

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

|                                                                                                             |             |             |          |   |
|-------------------------------------------------------------------------------------------------------------|-------------|-------------|----------|---|
| Accumulated other comprehensive income (loss), net                                                          | 4,961       | (4,499      | )        |   |
| Treasury stock (16,602,187 and 13,840,427 shares at September 30, 2015 and December 31, 2014, respectively) | (127,953    | )           | (103,561 | ) |
| Total shareholders' equity                                                                                  | 722,768     | 716,145     |          |   |
| Total liabilities and shareholders' equity                                                                  | \$6,384,749 | \$6,360,285 |          |   |

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

3

---

Table of Contents

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

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

|                                                       | For the Three Months<br>Ended<br>September 30, |          | For the Nine Months<br>Ended<br>September 30, |           |
|-------------------------------------------------------|------------------------------------------------|----------|-----------------------------------------------|-----------|
|                                                       | 2015                                           | 2014     | 2015                                          | 2014      |
|                                                       | (dollars in thousands, except share data)      |          |                                               |           |
| Interest Income                                       |                                                |          |                                               |           |
| Interest and fees on loans                            | \$43,083                                       | \$43,200 | \$128,334                                     | \$128,490 |
| Interest and dividends on investments:                |                                                |          |                                               |           |
| Taxable interest                                      | 6,470                                          | 7,118    | 20,022                                        | 21,632    |
| Interest exempt from federal income taxes             | 261                                            | 104      | 646                                           | 172       |
| Dividends                                             | 685                                            | 663      | 2,727                                         | 1,459     |
| Interest on bank deposits                             | 2                                              | 4        | 7                                             | 8         |
| Total interest income                                 | 50,501                                         | 51,089   | 151,736                                       | 151,761   |
| Interest Expense                                      |                                                |          |                                               |           |
| Interest on deposits                                  | 1,757                                          | 2,974    | 5,787                                         | 9,897     |
| Interest on short-term borrowings                     | 1,279                                          | 662      | 3,353                                         | 1,608     |
| Interest on subordinated debentures                   | 588                                            | 578      | 1,736                                         | 1,715     |
| Interest on other long-term debt                      | 192                                            | 322      | 633                                           | 1,014     |
| Total interest expense                                | 3,816                                          | 4,536    | 11,509                                        | 14,234    |
| Net Interest Income                                   | 46,685                                         | 46,553   | 140,227                                       | 137,527   |
| Provision for credit losses                           | 4,621                                          | 2,073    | 8,818                                         | 8,621     |
| Net Interest Income after Provision for Credit Losses | 42,064                                         | 44,480   | 131,409                                       | 128,906   |
| Noninterest Income                                    |                                                |          |                                               |           |
| Net securities gains                                  | —                                              | 48       | 125                                           | 50        |
| Trust income                                          | 1,614                                          | 1,678    | 4,511                                         | 4,587     |
| Service charges on deposit accounts                   | 4,081                                          | 4,099    | 11,271                                        | 12,032    |
| Insurance and retail brokerage commissions            | 2,163                                          | 1,709    | 6,536                                         | 4,704     |
| Income from bank owned life insurance                 | 1,357                                          | 1,330    | 4,089                                         | 4,131     |
| Gain on sale of loans                                 | 1,196                                          | 67       | 2,262                                         | 143       |
| Gain on sale of other assets                          | 444                                            | 675      | 1,022                                         | 4,345     |
| Card related interchange income                       | 3,637                                          | 3,599    | 10,784                                        | 10,620    |
| Derivatives mark to market (expense) income           | (783                                           | ) (108   | ) (420                                        | ) 175     |
| Other income                                          | 1,796                                          | 1,953    | 5,863                                         | 6,185     |
| Total noninterest income                              | 15,505                                         | 15,050   | 46,043                                        | 46,972    |
| Noninterest Expense                                   |                                                |          |                                               |           |
| Salaries and employee benefits                        | 22,446                                         | 22,244   | 66,339                                        | 65,185    |
| Net occupancy expense                                 | 3,291                                          | 3,180    | 10,518                                        | 9,969     |
| Furniture and equipment expense                       | 2,670                                          | 4,471    | 7,980                                         | 15,050    |
| Data processing expense                               | 1,558                                          | 1,583    | 4,505                                         | 4,593     |
| Advertising and promotion expense                     | 789                                            | 861      | 1,946                                         | 2,346     |
| Pennsylvania shares tax expense                       | 1,713                                          | 1,033    | 3,617                                         | 2,782     |
| Intangible amortization                               | 157                                            | 174      | 469                                           | 530       |
| Collection and repossession expense                   | 801                                            | 783      | 2,229                                         | 1,941     |
| Other professional fees and services                  | 1,007                                          | 1,050    | 2,882                                         | 2,777     |

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

|                                              |            |            |            |            |
|----------------------------------------------|------------|------------|------------|------------|
| FDIC insurance                               | 963        | 926        | 3,047      | 3,026      |
| Loss on sale or write-down of assets         | 140        | 61         | 2,037      | 1,241      |
| Operational losses (recoveries)              | 314        | 187        | 1,637      | (273 )     |
| Conversion related expenses                  | —          | 783        | —          | 1,676      |
| Other operating expenses                     | 4,408      | 4,232      | 13,539     | 13,008     |
| Total noninterest expense                    | 40,257     | 41,568     | 120,745    | 123,851    |
| Income Before Income Taxes                   | 17,312     | 17,962     | 56,707     | 52,027     |
| Income tax provision                         | 4,898      | 5,466      | 16,625     | 15,303     |
| Net Income                                   | \$12,414   | \$12,496   | \$40,082   | \$36,724   |
| Average Shares Outstanding                   | 88,807,294 | 92,567,503 | 89,527,560 | 93,627,933 |
| Average Shares Outstanding Assuming Dilution | 88,813,746 | 92,578,701 | 89,531,498 | 93,632,783 |
| Per Share Data:                              |            |            |            |            |
| Basic Earnings per Share                     | \$0.14     | \$0.13     | \$0.45     | \$0.39     |
| Diluted Earnings per Share                   | \$0.14     | \$0.13     | \$0.45     | \$0.39     |
| Cash Dividends Declared per Common Share     | \$0.07     | \$0.07     | \$0.21     | \$0.21     |

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

4

---

Table of Contents

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

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

|                                                                                            | For the Three Months Ended |          | For the Nine Months Ended |          |
|--------------------------------------------------------------------------------------------|----------------------------|----------|---------------------------|----------|
|                                                                                            | September 30,              |          | September 30,             |          |
|                                                                                            | 2015                       | 2014     | 2015                      | 2014     |
|                                                                                            | (dollars in thousands)     |          |                           |          |
| Net Income                                                                                 | \$12,414                   | \$12,496 | \$40,082                  | \$36,724 |
| Other comprehensive income (loss), before tax (expense) benefit:                           |                            |          |                           |          |
| Unrealized holding gains (losses) on securities arising from during the period             | 6,344                      | (5,544   | ) 12,510                  | 16,863   |
| Less: reclassification adjustment for gains on securities included in net income           | —                          | (48      | ) (125                    | ) (50    |
| Unrealized holding gains (losses) on derivatives arising from during the period            | 1,504                      | (27      | ) 2,172                   | (27      |
| Less: reclassification adjustment for losses (gains) on derivatives included in net income | —                          | 1        | (6                        | ) 1      |
| Total other comprehensive income (loss), before tax (expense) benefit                      | 7,848                      | (5,618   | ) 14,551                  | 16,787   |
| Income tax (expense) benefit related to items of other comprehensive income (loss)         | (2,747                     | ) 1,964  | (5,091                    | ) (5,875 |
| Total other comprehensive income (loss)                                                    | 5,101                      | (3,654   | ) 9,460                   | 10,912   |
| Comprehensive Income                                                                       | \$17,515                   | \$8,842  | \$49,542                  | \$47,636 |

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

Table of Contents

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

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

|                                                         | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>net | Treasury<br>Stock | Total<br>Shareholders'<br>Equity |
|---------------------------------------------------------|-----------------------|-----------------|-----------------------------------|----------------------|-------------------------------------------------------------------|-------------------|----------------------------------|
| (dollars in thousands, except share and per share data) |                       |                 |                                   |                      |                                                                   |                   |                                  |
| Balance at<br>December 31, 2014                         | 91,723,028            | \$ 105,563      | \$ 365,615                        | \$ 353,027           | \$ (4,499 )                                                       | \$ (103,561 )     | \$ 716,145                       |
| Net income                                              |                       |                 |                                   | 40,082               |                                                                   |                   | 40,082                           |
| Other comprehensive<br>income                           |                       |                 |                                   |                      | 9,460                                                             |                   | 9,460                            |
| Cash dividends<br>declared (\$0.21 per<br>share)        |                       |                 |                                   | (18,862 )            |                                                                   |                   | (18,862 )                        |
| Treasury stock<br>acquired                              | (2,918,066 )          |                 |                                   |                      |                                                                   | (25,383 )         | (25,383 )                        |
| Treasury stock reissued                                 | 20,936                |                 | 32                                | —                    |                                                                   | 160               | 192                              |
| Restricted stock                                        | 135,370               | —               | 303                               | —                    |                                                                   | 831               | 1,134                            |
| Balance at<br>September 30, 2015                        | 88,961,268            | \$ 105,563      | \$ 365,950                        | \$ 374,247           | \$ 4,961                                                          | \$ (127,953 )     | \$ 722,768                       |
|                                                         | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>net | Treasury<br>Stock | Total<br>Shareholders'<br>Equity |
| (dollars in thousands, except share and per share data) |                       |                 |                                   |                      |                                                                   |                   |                                  |
| Balance at<br>December 31, 2013                         | 95,245,215            | \$ 105,563      | \$ 365,333                        | \$ 334,748           | \$ (20,588 )                                                      | \$ (73,359 )      | \$ 711,697                       |
| Net income                                              |                       |                 |                                   | 36,724               |                                                                   |                   | 36,724                           |
| Other comprehensive<br>income                           |                       |                 |                                   |                      | 10,912                                                            |                   | 10,912                           |
| Cash dividends<br>declared (\$0.21 per<br>share)        |                       |                 |                                   | (19,754 )            |                                                                   |                   | (19,754 )                        |
| Discount on dividend<br>reinvestment plan<br>purchases  |                       |                 | (65 )                             |                      |                                                                   |                   | (65 )                            |
| Treasury stock<br>acquired                              | (3,633,513 )          |                 |                                   |                      |                                                                   | (30,928 )         | (30,928 )                        |
| Treasury stock<br>reissued                              | 21,960                |                 | 35                                | —                    |                                                                   | 157               | 192                              |



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

|                                  |            |            |            |            |           |               |            |
|----------------------------------|------------|------------|------------|------------|-----------|---------------|------------|
| Restricted stock                 | 88,987     | —          | 273        | —          |           | 433           | 706        |
| Balance at<br>September 30, 2014 | 91,722,649 | \$ 105,563 | \$ 365,576 | \$ 351,718 | \$ (9,676 | ) \$(103,697) | \$ 709,484 |

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

6

---

Table of Contents

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|                                                                                  | For the Nine Months Ended<br>September 30, |             |
|----------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                  | 2015                                       | 2014        |
|                                                                                  | (dollars in thousands)                     |             |
| Operating Activities                                                             |                                            |             |
| Net income                                                                       | \$40,082                                   | \$36,724    |
| Adjustment to reconcile net income to net cash provided by operating activities: |                                            |             |
| Provision for credit losses                                                      | 8,818                                      | 8,621       |
| Deferred tax expense                                                             | 12,520                                     | 6,207       |
| Depreciation and amortization                                                    | 5,750                                      | 11,659      |
| Net gains on securities and other assets                                         | (952)                                      | ) (3,137)   |
| Net amortization of premiums and discounts on securities                         | 2,012                                      | 1,610       |
| Net accretion of premiums and discounts on long term debt                        | —                                          | (37)        |
| Income from increase in cash surrender value of bank owned life insurance        | (4,089)                                    | ) (3,904)   |
| Increase in interest receivable                                                  | (167)                                      | ) (339)     |
| Mortgage loans originated for sale                                               | (67,708)                                   | ) (3,810)   |
| Proceeds from sale of mortgage loans                                             | 67,071                                     | 2,569       |
| Decrease in interest payable                                                     | (173)                                      | ) (476)     |
| (Decrease) increase in income taxes payable                                      | (22)                                       | ) 1,157     |
| Other-net                                                                        | (10,757)                                   | ) 772       |
| Net cash provided by operating activities                                        | 52,385                                     | 57,616      |
| Investing Activities                                                             |                                            |             |
| Transactions with securities held to maturity:                                   |                                            |             |
| Proceeds from maturities and redemptions                                         | 3,828                                      | —           |
| Purchases                                                                        | (156,756)                                  | ) —         |
| Transactions with securities available for sale:                                 |                                            |             |
| Proceeds from sales                                                              | —                                          | 132,868     |
| Proceeds from maturities and redemptions                                         | 286,924                                    | 199,580     |
| Purchases                                                                        | (16,600)                                   | ) (325,955) |
| Purchases of FHLB stock                                                          | (46,911)                                   | ) (32,115)  |
| Proceeds from the redemption of FHLB stock                                       | 36,980                                     | 16,565      |
| Proceeds from bank owned life insurance                                          | 378                                        | 1,776       |
| Proceeds from sale of loans                                                      | 2,898                                      | 3,112       |
| Proceeds from sale of other assets                                               | 3,668                                      | 11,314      |
| Net increase in loans                                                            | (140,268)                                  | ) (146,863) |
| Purchases of premises and equipment                                              | (3,740)                                    | ) (9,781)   |
| Net cash used in investing activities                                            | (29,599)                                   | ) (149,499) |
| Financing Activities                                                             |                                            |             |
| Net increase in federal funds purchased                                          | 11,000                                     | 3,500       |
| Net increase in other short-term borrowings                                      | 212,918                                    | 404,852     |
| Net decrease in deposits                                                         | (154,018)                                  | ) (231,475) |
| Repayments of other long-term debt                                               | (50,407)                                   | ) (32,808)  |
| Proceeds from other long-term debt                                               | —                                          | 5,000       |
| Discount on dividend reinvestment plan purchases                                 | —                                          | (65)        |
| Dividends paid                                                                   | (18,862)                                   | ) (19,754)  |

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

|                                                      |          |           |   |
|------------------------------------------------------|----------|-----------|---|
| Proceeds from reissuance of treasury stock           | 192      | 192       |   |
| Purchase of treasury stock                           | (25,383  | ) (30,928 | ) |
| Net cash (used in) provided by financing activities  | (24,560  | ) 98,514  |   |
| Net (decrease) increase in cash and cash equivalents | (1,774   | ) 6,631   |   |
| Cash and cash equivalents at January 1               | 74,538   | 77,439    |   |
| Cash and cash equivalents at September 30            | \$72,764 | \$84,070  |   |

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

7

---

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 Basis of Presentation

The accounting and reporting policies of First Commonwealth Financial Corporation and its subsidiaries ("First Commonwealth" or the "Company") conform with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ from those estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of First Commonwealth's financial position, results of operations, comprehensive income, cash flows and changes in shareholders' equity as of and for the periods presented.

The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the full year of 2015. These interim financial statements should be read in conjunction with First Commonwealth's 2014 Annual Report on Form 10-K.

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

## Note 2 Supplemental Comprehensive Income Disclosures

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

|                                                                                      | For the Nine Months Ended September 30, |                             |                         |                  |                             |                         |
|--------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------|-------------------------|------------------|-----------------------------|-------------------------|
|                                                                                      | 2015                                    |                             |                         | 2014             |                             |                         |
|                                                                                      | Pretax<br>Amount                        | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount | Pretax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount |
|                                                                                      | (dollars in thousands)                  |                             |                         |                  |                             |                         |
| Unrealized gains on securities:                                                      |                                         |                             |                         |                  |                             |                         |
| Unrealized holding gains on securities arising during the period                     | \$12,510                                | \$ (4,377 )                 | \$8,133                 | \$16,863         | \$ (5,902 )                 | \$10,961                |
| Reclassification adjustment for gains on securities included in net income           | (125 )                                  | 44                          | (81 )                   | (50 )            | 18                          | (32 )                   |
| Total unrealized gains on securities                                                 | 12,385                                  | (4,333 )                    | 8,052                   | 16,813           | (5,884 )                    | 10,929                  |
| Unrealized gains (losses) on derivatives:                                            |                                         |                             |                         |                  |                             |                         |
| Unrealized holding gains (losses) on derivatives arising during the period           | 2,172                                   | (760 )                      | 1,412                   | (27 )            | 9                           | (18 )                   |
| Reclassification adjustment for (gains) losses on derivatives included in net income | (6 )                                    | 2                           | (4 )                    | 1                | —                           | 1                       |
| Total unrealized (losses) gains on derivatives                                       | 2,166                                   | (758 )                      | 1,408                   | (26 )            | 9                           | (17 )                   |
| Total other comprehensive income                                                     | \$14,551                                | \$ (5,091 )                 | \$9,460                 | \$16,787         | \$ (5,875 )                 | \$10,912                |

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

|                                                                              | For the Three Months Ended September 30, |                       |                   |               |                       |                   |
|------------------------------------------------------------------------------|------------------------------------------|-----------------------|-------------------|---------------|-----------------------|-------------------|
|                                                                              | 2015                                     |                       |                   | 2014          |                       |                   |
|                                                                              | Pretax Amount                            | Tax (Expense) Benefit | Net of Tax Amount | Pretax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| (dollars in thousands)                                                       |                                          |                       |                   |               |                       |                   |
| Unrealized gains (losses) on securities:                                     |                                          |                       |                   |               |                       |                   |
| Unrealized holding gains (losses) on securities arising during the period    | \$6,344                                  | \$ (2,221 )           | \$ 4,123          | \$(5,544 )    | \$ 1,938              | \$(3,606 )        |
| Reclassification adjustment for gains on securities included in net income   | —                                        | —                     | —                 | (48 )         | 17                    | (31 )             |
| Total unrealized gains (losses) on securities                                | 6,344                                    | (2,221 )              | 4,123             | (5,592 )      | 1,955                 | (3,637 )          |
| Unrealized gains (losses) on derivatives:                                    |                                          |                       |                   |               |                       |                   |
| Unrealized holding gains (losses) on derivatives arising during the period   | 1,504                                    | (526 )                | 978               | (27 )         | 9                     | (18 )             |
| Reclassification adjustment for losses on derivatives included in net income | —                                        | —                     | —                 | 1             | —                     | 1                 |
| Total unrealized gains on derivatives                                        | 1,504                                    | (526 )                | 978               | (26 )         | 9                     | (17 )             |
| Total other comprehensive income (loss)                                      | \$7,848                                  | \$ (2,747 )           | \$ 5,101          | \$(5,618 )    | \$ 1,964              | \$(3,654 )        |

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

|                                                                         | 2015                          |                            |             |                                        | 2014                          |                            |             |                                        |
|-------------------------------------------------------------------------|-------------------------------|----------------------------|-------------|----------------------------------------|-------------------------------|----------------------------|-------------|----------------------------------------|
|                                                                         | Securities Available for Sale | Post-Retirement Obligation | Derivatives | Accumulated Other Comprehensive Income | Securities Available for Sale | Post-Retirement Obligation | Derivatives | Accumulated Other Comprehensive Income |
| (dollars in thousands)                                                  |                               |                            |             |                                        |                               |                            |             |                                        |
| Balance at December 31                                                  | \$(4,875 )                    | \$ 76                      | \$ 300      | \$ (4,499 )                            | \$(20,868 )                   | \$ 280                     | \$ —        | \$ (20,588 )                           |
| Other comprehensive income before reclassification adjustment           | 8,133                         | —                          | 1,412       | 9,545                                  | 10,961                        | —                          | (18 )       | 10,943                                 |
| Amounts reclassified from accumulated other comprehensive (loss) income | (81 )                         | —                          | (4 )        | (85 )                                  | (32 )                         | —                          | 1           | (31 )                                  |
| Net other comprehensive income during the period                        | 8,052                         | —                          | 1,408       | 9,460                                  | 10,929                        | —                          | (17 )       | 10,912                                 |
| Balance at September 30                                                 | \$3,177                       | \$ 76                      | \$ 1,708    | \$ 4,961                               | \$(9,939 )                    | \$ 280                     | \$ (17 )    | \$ (9,676 )                            |

## Note 3 Supplemental Cash Flow Disclosures

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

|                                  | 2015     | 2014     |
|----------------------------------|----------|----------|
| (dollars in thousands)           |          |          |
| Cash paid during the period for: |          |          |
| Interest                         | \$11,682 | \$14,747 |

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

|                                                                            |        |        |   |
|----------------------------------------------------------------------------|--------|--------|---|
| Income taxes                                                               | 4,000  | 7,700  |   |
| Non-cash investing and financing activities:                               |        |        |   |
| Loans transferred to other real estate owned and repossessed assets        | 7,413  | 4,239  |   |
| Loans transferred from held to maturity to held for sale                   | 3,071  | 3,035  |   |
| Gross increase in market value adjustment to securities available for sale | 12,381 | 16,812 |   |
| Gross increase (decrease) in market value adjustment to derivatives        | 2,167  | (27    | ) |
| Investments committed to purchase, not settled                             | 1,350  | 1,000  |   |

9

---

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Note 4 Earnings per Share

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

|                                                                                                          | For the Three Months Ended<br>September 30, |               | For the Nine Months Ended<br>September 30, |               |
|----------------------------------------------------------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|---------------|
|                                                                                                          | 2015                                        | 2014          | 2015                                       | 2014          |
| Weighted average common shares issued                                                                    | 105,563,455                                 | 105,563,455   | 105,563,455                                | 105,563,455   |
| Average treasury stock shares                                                                            | (16,602,502 )                               | (12,836,692 ) | (15,858,433 )                              | (11,773,187 ) |
| Average unearned nonvested shares                                                                        | (153,659 )                                  | (159,260 )    | (177,462 )                                 | (162,335 )    |
| Weighted average common shares and common stock equivalents used to calculate basic earnings per share   | 88,807,294                                  | 92,567,503    | 89,527,560                                 | 93,627,933    |
| Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share       | 6,452                                       | 11,198        | 3,938                                      | 4,850         |
| Additional common stock equivalents (stock options) used to calculate diluted earnings per share         | —                                           | —             | —                                          | —             |
| Weighted average common shares and common stock equivalents used to calculate diluted earnings per share | 88,813,746                                  | 92,578,701    | 89,531,498                                 | 93,632,783    |

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

|                  | 2015    |             |      | 2014   |             |         |
|------------------|---------|-------------|------|--------|-------------|---------|
|                  | Shares  | Price Range |      | Shares | Price Range |         |
|                  |         | From        | To   |        | From        | To      |
| Stock Options    | —       | \$—         | \$—  | 15,000 | \$14.55     | \$14.55 |
| Restricted Stock | 121,091 | 5.26        | 9.84 | 94,929 | 4.41        | 9.18    |

## Note 5 Commitments and Contingent Liabilities

## Commitments and Letters of Credit

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

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

|                                                                     | September 30,<br>2015  | December 31,<br>2014 |
|---------------------------------------------------------------------|------------------------|----------------------|
|                                                                     | (dollars in thousands) |                      |
| Financial instruments whose contract amounts represent credit risk: |                        |                      |
| Commitments to extend credit                                        | \$1,576,245            | \$1,635,948          |
| Financial standby letters of credit                                 | 20,089                 | 36,075               |
| Performance standby letters of credit                               | 26,317                 | 25,915               |

|                              |       |       |
|------------------------------|-------|-------|
| Commercial letters of credit | 2,023 | 2,611 |
|------------------------------|-------|-------|

The notional amounts outstanding as of September 30, 2015 include amounts issued in 2015 of \$7.8 million in financial standby letters of credit and \$2.3 million in performance standby letters of credit. There have been no commercial letters of credit issued during 2015. A liability of \$0.2 million has been recorded as of September 30, 2015 and December 31, 2014, 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.

10

---



## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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 \$3.8 million as of September 30, 2015 and \$3.1 million as of December 31, 2014. 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

There are no material legal proceedings to which First Commonwealth or its subsidiaries are a party, or of which their property is the subject, except proceedings which arise in the normal course of business and, in the opinion of management, will not have a material adverse effect on the consolidated operations, financial position, comprehensive income or cash flow of First Commonwealth or its subsidiaries.

## Note 6 Investment Securities

## Securities Available for Sale

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

|                                                              | September 30, 2015 |                              |                               |                         | December 31, 2014 |                              |                               |                         |
|--------------------------------------------------------------|--------------------|------------------------------|-------------------------------|-------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                                                              | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| (dollars in thousands)                                       |                    |                              |                               |                         |                   |                              |                               |                         |
| Obligations of U.S.<br>Government Agencies:                  |                    |                              |                               |                         |                   |                              |                               |                         |
| Mortgage-Backed<br>Securities – Residential                  | \$20,902           | \$2,379                      | \$—                           | \$23,281                | \$23,344          | \$2,595                      | \$(3)                         | \$25,936                |
| Obligations of U.S.<br>Government-Sponsored<br>Enterprises:  |                    |                              |                               |                         |                   |                              |                               |                         |
| Mortgage-Backed<br>Securities – Residential                  | 816,179            | 12,819                       | (4,846)                       | 824,152                 | 947,635           | 13,076                       | (9,830)                       | 950,881                 |
| Mortgage-Backed<br>Securities – Commercial                   | 37                 | 1                            | —                             | 38                      | 72                | 2                            | —                             | 74                      |
| Other<br>Government-Sponsored<br>Enterprises                 | 135,853            | 19                           | (91)                          | 135,781                 | 269,181           | 4                            | (1,308)                       | 267,877                 |
| Obligations of States<br>and Political<br>Subdivisions       | 27,064             | 397                          | (12)                          | 27,449                  | 27,058            | 362                          | (43)                          | 27,377                  |
| Corporate Securities                                         | 1,895              | 438                          | —                             | 2,333                   | 6,682             | 573                          | —                             | 7,255                   |
| Pooled Trust Preferred<br>Collateralized Debt<br>Obligations | 42,000             | 1,016                        | (7,237)                       | 35,779                  | 41,926            | 309                          | (13,236)                      | 28,999                  |
| Total Debt Securities                                        | 1,043,930          | 17,069                       | (12,186)                      | 1,048,813               | 1,315,898         | 16,921                       | (24,420)                      | 1,308,399               |
| Equities                                                     | 1,920              | —                            | —                             | 1,920                   | 1,420             | —                            | —                             | 1,420                   |
| Total Securities<br>Available for Sale                       | \$1,045,850        | \$17,069                     | \$(12,186)                    | \$1,050,733             | \$1,317,318       | \$16,921                     | \$(24,420)                    | \$1,309,819             |

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.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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.

The amortized cost and estimated fair value of debt securities available for sale at September 30, 2015, by contractual maturity, are shown below.

|                                 | Amortized<br>Cost      | Estimated<br>Fair Value |
|---------------------------------|------------------------|-------------------------|
|                                 | (dollars in thousands) |                         |
| Due within 1 year               | \$3,000                | \$3,000                 |
| Due after 1 but within 5 years  | 132,852                | 132,781                 |
| Due after 5 but within 10 years | 25,657                 | 26,031                  |
| Due after 10 years              | 45,303                 | 39,530                  |
|                                 | 206,812                | 201,342                 |
| Mortgage-Backed Securities (a)  | 837,118                | 847,471                 |
| Total Debt Securities           | \$1,043,930            | \$1,048,813             |

Mortgage Backed Securities include an amortized cost of \$20.9 million and a fair value of \$23.3 million for (a) Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$816.2 million and a fair value of \$824.2 million for Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac.

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

|                                 | 2015                   | 2014      |
|---------------------------------|------------------------|-----------|
|                                 | (dollars in thousands) |           |
| Proceeds from sales             | \$—                    | \$132,868 |
| Gross gains (losses) realized:  |                        |           |
| Sales Transactions:             |                        |           |
| Gross gains                     | \$—                    | \$489     |
| Gross losses                    | —                      | (441)     |
|                                 | —                      | 48        |
| Maturities and impairment       |                        |           |
| Gross gains                     | 125                    | 2         |
| Gross losses                    | —                      | —         |
| Other-than-temporary impairment | —                      | —         |
|                                 | 125                    | 2         |
| Net gains and impairment        | \$125                  | \$50      |

Securities available for sale with an estimated fair value of \$480.1 million and \$563.2 million were pledged as of September 30, 2015 and December 31, 2014, respectively, to secure public deposits and for other purposes required or permitted by law.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Securities Held to Maturity

Below is an analysis of the amortized cost and fair values of debt securities held to maturity at September 30, 2015.

There were no held to maturity securities at December 31, 2014.

|                                                       | September 30, 2015     |                              |                               |                         |
|-------------------------------------------------------|------------------------|------------------------------|-------------------------------|-------------------------|
|                                                       | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|                                                       | (dollars in thousands) |                              |                               |                         |
| Obligations of U.S. Government Agencies:              |                        |                              |                               |                         |
| Mortgage-Backed Securities – Residential              | \$4,806                | \$24                         | \$—                           | \$4,830                 |
| Obligations of U.S. Government-Sponsored Enterprises: |                        |                              |                               |                         |
| Mortgage-Backed Securities – Residential              | \$116,065              | \$520                        | \$(6)                         | \$116,579               |
| Mortgage-Backed Securities – Commercial               | 15,299                 | 176                          | —                             | 15,475                  |
| Obligations of States and Political Subdivisions      | 17,865                 | 131                          | (43)                          | 17,953                  |
| Total Securities Held to Maturity                     | \$154,035              | \$851                        | \$(49)                        | \$154,837               |

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2015, 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<br>Cost      | Estimated<br>Fair Value |
|---------------------------------|------------------------|-------------------------|
|                                 | (dollars in thousands) |                         |
| Due within 1 year               | \$—                    | \$—                     |
| Due after 1 but within 5 years  | —                      | —                       |
| Due after 5 but within 10 years | 12,210                 | 12,303                  |
| Due after 10 years              | 5,655                  | 5,650                   |
|                                 | 17,865                 | 17,953                  |
| Mortgage-Backed Securities (a)  | 136,170                | 136,884                 |
| Total Debt Securities           | \$154,035              | \$154,837               |

Mortgage Backed Securities include an amortized cost of \$4.8 million and a fair value of \$4.8 million for

- (a) Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of \$131.4 million and a fair value of \$132.1 million for Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac.

Securities held to maturity with an amortized cost of \$16.5 million were pledged as of September 30, 2015 to secure public deposits and for other purposes required or permitted by law.

## Note 7 Impairment of Investment Securities

## Securities Available for Sale and Held to Maturity

As required by FASB ASC Topic 320, “Investments – Debt and Equity Securities,” credit related other-than-temporary impairment on debt securities is recognized in earnings, while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in OCI. During the nine months ended September 30, 2015 and 2014, 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.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

The following table presents the gross unrealized losses and estimated fair values at September 30, 2015 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<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
|                                                           | (dollars in thousands)  |                               |                         |                               |                         |                               |
| Obligations of U.S. Government Agencies:                  |                         |                               |                         |                               |                         |                               |
| Mortgage-Backed Securities – Residential                  | \$2,240                 | \$—                           | (a) \$—                 | \$—                           | \$2,240                 | \$—                           |
| Obligations of U.S.<br>Government-Sponsored Enterprises:  |                         |                               |                         |                               |                         |                               |
| Mortgage-Backed Securities – Residential                  | 78,300                  | (242 )                        | 277,333                 | (4,610 )                      | 355,633                 | (4,852 )                      |
| Other Government-Sponsored Enterprises                    | 10,091                  | (9 )                          | 91,570                  | (82 )                         | 101,661                 | (91 )                         |
| Obligations of States and Political<br>Subdivisions       | 7,123                   | (55 )                         | —                       | —                             | 7,123                   | (55 )                         |
| Pooled Trust Preferred Collateralized Debt<br>Obligations | —                       | —                             | 30,068                  | (7,237 )                      | 30,068                  | (7,237 )                      |
| Total Securities                                          | \$97,754                | \$(306 )                      | \$398,971               | \$(11,929 )                   | \$496,725               | \$(12,235 )                   |

(a) less than \$1 thousand.

At September 30, 2015, fixed income securities issued by U.S. Government-sponsored enterprises comprised 40% of total unrealized losses due to changes in market interest rates. Pooled trust preferred collateralized debt obligations accounted for 59% of the unrealized losses primarily due to the illiquid market for this investment type. Obligations of state and political subdivisions account for the remaining 1% of total unrealized losses as a result of changes in market interest rates. At September 30, 2015, there are 45 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, 2014 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               | \$2,318                | \$(3 )                  | \$—                  | \$—                     | \$2,318              | \$(3 )                  |
| Obligations of U.S. Government-Sponsored Enterprises:  |                        |                         |                      |                         |                      |                         |
| Mortgage-Backed Securities – Residential               | 111,646                | (419 )                  | 368,706              | (9,411 )                | 480,352              | (9,830 )                |
| Other Government-Sponsored Enterprises                 | 112,473                | (229 )                  | 130,401              | (1,079 )                | 242,874              | (1,308 )                |
| Obligation of States and Political Subdivisions        | 3,146                  | (43 )                   | —                    | —                       | 3,146                | (43 )                   |
| Pooled Trust Preferred Collateralized Debt Obligations | —                      | —                       | 24,356               | (13,236 )               | 24,356               | (13,236 )               |
| Total Securities                                       | \$229,583              | \$(694 )                | \$523,463            | \$(23,726 )             | \$753,046            | \$(24,420 )             |

As of September 30, 2015, our corporate securities had an amortized cost and an estimated fair value of \$1.9 million and \$2.3 million, respectively. As of December 31, 2014, our corporate securities had an amortized cost and estimated fair value of \$6.7 million and \$7.3 million, respectively. Corporate securities are comprised of single issue trust preferred securities issued primarily by large regional banks. There were no corporate securities in an unrealized loss position as of September 30, 2015 and December 31, 2014. When unrealized losses exist on these investments, management reviews each of the issuer's asset quality, earnings trends and capital position, to determine whether issues in an unrealized loss position were other-than-temporarily impaired. All interest payments on the corporate securities are being made as contractually required.

As of September 30, 2015, the book value of our pooled trust preferred collateralized debt obligations totaled \$42.0 million with an estimated fair value of \$35.8 million, which includes securities comprised of 275 banks and other financial institutions. All of our pooled securities are mezzanine tranches, three of which now have no senior class remaining in the issue. The credit ratings on all of our issues are below investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of September 30, 2015, after taking into account management's best estimates of future interest deferrals and defaults, four of our securities had no excess subordination in the tranches we own and five of our securities had excess subordination which ranged from 10% to 84% of the current performing collateral.

The following table provides information related to our pooled trust preferred collateralized debt obligations as of September 30, 2015:

| Deal                   | Class     | Book Value | Estimated Fair Value | Unrealized Gain (Loss) | Moody's/ Fitch Ratings | Number of Banks | Deferrals and Defaults as a % of Current Collateral | Excess Subordination as a % of Current Performing Collateral |
|------------------------|-----------|------------|----------------------|------------------------|------------------------|-----------------|-----------------------------------------------------|--------------------------------------------------------------|
| (dollars in thousands) |           |            |                      |                        |                        |                 |                                                     |                                                              |
| Pre TSL IV             | Mezzanine | \$1,830    | \$1,337              | \$(493 )               | B1/BB                  | 6               | 18.05 %                                             | 57.96 %                                                      |
| Pre TSL VII            | Mezzanine | 2,905      | 3,494                | 589                    | Ca/-                   | 14              | 49.68                                               | —                                                            |

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

|              |           |          |          |          |   |         |    |       |       |
|--------------|-----------|----------|----------|----------|---|---------|----|-------|-------|
| Pre TSL VIII | Mezzanine | 2,000    | 1,865    | (135     | ) | C/C     | 29 | 56.74 | —     |
| Pre TSL IX   | Mezzanine | 2,367    | 1,811    | (556     | ) | B1/C    | 38 | 29.80 | 10.04 |
| Pre TSL X    | Mezzanine | 1,583    | 1,921    | 338      |   | Caa1/C  | 43 | 30.66 | —     |
| Pre TSL XII  | Mezzanine | 5,643    | 4,598    | (1,045   | ) | B3/C    | 66 | 23.07 | —     |
| Pre TSL XIII | Mezzanine | 12,646   | 10,704   | (1,942   | ) | B3/C    | 56 | 12.05 | 26.32 |
| Pre TSL XIV  | Mezzanine | 12,818   | 9,752    | (3,066   | ) | Caa1/CC | 56 | 19.72 | 43.57 |
| MMCap I      | Mezzanine | 208      | 297      | 89       |   | Ca/C    | 8  | 58.11 | 84.08 |
| Total        |           | \$42,000 | \$35,779 | \$(6,221 | ) |         |    |       |       |

15

---

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Lack of liquidity in the market for trust preferred collateralized debt obligations, below investment grade credit ratings and market uncertainties related to the financial industry are factors contributing to the impairment on these securities. All of the Company's pooled trust preferred securities are included in the non-exclusive list issued by the regulatory agencies and therefore are not considered covered funds under the Volcker Rule.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the nine months ended September 30, 2015 and 2014, there were no credit related other-than-temporary impairment charges recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments, we determine a credit-related portion and a non-credit related portion of other-than-temporary impairment. The credit related portion is recognized in earnings and represents the difference between book value and the present value of future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the fair value of the security and the amount of credit-related impairment. A discounted cash flow analysis provides the best estimate of credit-related other-than-temporary impairment for these securities.

Additional information related to the discounted cash flow analysis follows:

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at September 30, 2015. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

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

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

**Credit Analysis** – A quarterly credit evaluation is performed for each of the 275 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

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



will ultimately cure is assigned. The probability of default is updated quarterly. As of September 30, 2015, default probabilities for performing collateral ranged from 0.33% to 75%.

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

Our cash flow analysis as of September 30, 2015, indicates that no credit-related other-than-temporary impairment has occurred on our pooled trust preferred securities during the nine months ended September 30, 2015. Based upon the analysis performed by management, it is probable that four of our pooled trust preferred securities will experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded in prior periods. These securities are identified in the table on page 15 with 0% "Excess Subordination as a Percentage of Current Performing Collateral." For the remaining securities listed in that table, our analysis as of September 30, 2015 indicates it is probable that we will collect all contractual principal and interest payments. For four of those securities, PreTSL IX, PreTSL XIII, PreTSL XIV and MMCap I, other-than-temporary impairment charges were recorded in prior periods; however, due to improvement in the expected cash flows of these securities, it is now probable that all contractual payments will be received.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL IV. Our cash flow analysis as of September 30, 2015, for all of these impaired securities indicates that it is now probable we will collect principal and interest in excess of what was estimated at the time other-than-temporary impairment charges were recorded. This change can be attributed to improvement in the underlying collateral for these securities and has resulted in the present value of estimated future principal and interest payments exceeding the securities' current book value. The excess for each bond of the present value of future cash flows over our current book value ranges from 21% to 136% and will be recognized as an adjustment to yield over the remaining life of these securities. The excess subordination recognized as an adjustment to yield is reflected in the following table as increases in cash flows expected to be collected.

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

|                                                                                                                 | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                                                                                                 | 2015                                        | 2014     | 2015                                       | 2014     |
|                                                                                                                 | (dollars in thousands)                      |          |                                            |          |
| Balance, beginning (a)                                                                                          | \$25,366                                    | \$26,842 | \$26,246                                   | \$27,543 |
| 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)        | (255 )                                      | (288 )   | (917 )                                     | (989 )   |
| Reduction for debt securities called during the period                                                          | —                                           | —        | (218 )                                     | —        |
| Balance, ending                                                                                                 | \$25,111                                    | \$26,554 | \$25,111                                   | \$26,554 |

(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 nine months of 2015 and 2014, 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 September 30, 2015 and 2014, there were no equity securities in an unrealized loss position.

#### Other Investments

As a member of the Federal Home Loan Bank ("FHLB"), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. The level of stock required to be held is dependent on the amount of First Commonwealth's mortgage-related assets and outstanding borrowings with the FHLB. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

transfer price is determined by FHLB membership rules and not by market participants. As of September 30, 2015 and December 31, 2014, our FHLB stock totaled \$54.0 million and \$44.5 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 nine months ended September 30, 2015.

## Note 8 Loans and Allowance for Credit Losses

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

|                                               | September 30,<br>2015  | December 31,<br>2014 |
|-----------------------------------------------|------------------------|----------------------|
|                                               | (dollars in thousands) |                      |
| Commercial, financial, agricultural and other | \$1,126,881            | \$1,052,109          |
| Real estate construction                      | 179,710                | 120,785              |
| Residential real estate                       | 1,204,220              | 1,226,344            |
| Commercial real estate                        | 1,435,954              | 1,405,256            |
| Loans to individuals                          | 628,970                | 652,814              |
| Total loans and leases net of unearned income | \$4,575,735            | \$4,457,308          |

## Credit Quality Information

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

|                                          |                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pass                                     | Acceptable levels of risk exist in the relationship. Includes all loans not classified as OAEM, substandard or doubtful.                                                                                                                                                                                                                                                                              |
| Other Assets Especially Mentioned (OAEM) | Potential weaknesses that deserve management’s close attention. The potential weaknesses may result in deterioration of the repayment prospects or weaken the Company’s credit position at some future date. The credit risk may be relatively minor, yet constitute an undesirable risk in light of the circumstances surrounding the specific credit. No loss of principal or interest is expected. |
| Substandard                              | Well-defined weakness or a weakness that jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of deterioration of the borrower’s financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard.                                   |
| Doubtful                                 | Loans with the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable.                                                                                                                                                                                              |

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

The following tables represent our credit risk profile by creditworthiness:

|                | September 30, 2015                                                               |                             |                            |                           |                         |             |
|----------------|----------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------|-------------------------|-------------|
|                | Commercial,<br>financial,<br>agricultural<br>and other<br>(dollars in thousands) | Real estate<br>construction | Residential<br>real estate | Commercial<br>real estate | Loans to<br>individuals | Total       |
| Pass           | \$1,043,458                                                                      | \$179,229                   | \$1,192,888                | \$1,394,506               | \$628,735               | \$4,438,816 |
| Non-Pass       |                                                                                  |                             |                            |                           |                         |             |
| OAEM           | 22,447                                                                           | 450                         | 2,926                      | 29,373                    | —                       | 55,196      |
| Substandard    | 60,976                                                                           | 31                          | 8,406                      | 12,075                    | 235                     | 81,723      |
| Doubtful       | —                                                                                | —                           | —                          | —                         | —                       | —           |
| Total Non-Pass | 83,423                                                                           | 481                         | 11,332                     | 41,448                    | 235                     | 136,919     |
| Total          | \$1,126,881                                                                      | \$179,710                   | \$1,204,220                | \$1,435,954               | \$628,970               | \$4,575,735 |

|                | December 31, 2014                                                                |                             |                            |                           |                         |             |
|----------------|----------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------|-------------------------|-------------|
|                | Commercial,<br>financial,<br>agricultural<br>and other<br>(dollars in thousands) | Real estate<br>construction | Residential<br>real estate | Commercial<br>real estate | Loans to<br>individuals | Total       |
| Pass           | \$983,357                                                                        | \$112,536                   | \$1,214,920                | \$1,353,773               | \$652,596               | \$4,317,182 |
| Non-Pass       |                                                                                  |                             |                            |                           |                         |             |
| OAEM           | 32,563                                                                           | 8,013                       | 2,315                      | 29,479                    | —                       | 72,370      |
| Substandard    | 32,028                                                                           | 236                         | 9,109                      | 22,004                    | 218                     | 63,595      |
| Doubtful       | 4,161                                                                            | —                           | —                          | —                         | —                       | 4,161       |
| Total Non-Pass | 68,752                                                                           | 8,249                       | 11,424                     | 51,483                    | 218                     | 140,126     |
| Total          | \$1,052,109                                                                      | \$120,785                   | \$1,226,344                | \$1,405,256               | \$652,814               | \$4,457,308 |

## Portfolio Risks

The credit quality of our loan portfolio can potentially represent significant risk to our earnings, capital, regulatory agency relationships, investment community reputation and shareholder returns. First Commonwealth devotes a substantial amount of resources managing this risk primarily through our credit administration department that develops and administers policies and procedures for underwriting, maintaining, monitoring and collecting activities. Credit administration is independent of lending departments and oversight is provided by the credit committee of the First Commonwealth Board of Directors.

Criticized loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate to absorb losses inherent to the portfolio as of September 30, 2015. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## Age Analysis of Past Due Loans by Segment

The following tables delineate the aging analysis of the recorded investments in past due loans as of September 30, 2015 and December 31, 2014. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

|                                               | September 30, 2015     |                       |                                        |            | Total past due and nonaccrual | Current     | Total       |
|-----------------------------------------------|------------------------|-----------------------|----------------------------------------|------------|-------------------------------|-------------|-------------|
|                                               | 30 - 59 days past due  | 60 - 89 days past due | 90 days and greater and still accruing | Nonaccrual |                               |             |             |
|                                               | (dollars in thousands) |                       |                                        |            |                               |             |             |
| Commercial, financial, agricultural and other | \$3,817                | \$59                  | \$149                                  | \$17,334   | \$21,359                      | \$1,105,522 | \$1,126,881 |
| Real estate construction                      | —                      | —                     | —                                      | 31         | 31                            | 179,679     | 179,710     |
| Residential real estate                       | 3,562                  | 1,187                 | 618                                    | 6,563      | 11,930                        | 1,192,290   | 1,204,220   |
| Commercial real estate                        | 35                     | 442                   | 331                                    | 4,640      | 5,448                         | 1,430,506   | 1,435,954   |
| Loans to individuals                          | 2,624                  | 756                   | 956                                    | 235        | 4,571                         | 624,399     | 628,970     |
| Total                                         | \$10,038               | \$2,444               | \$2,054                                | \$28,803   | \$43,339                      | \$4,532,396 | \$4,575,735 |
|                                               | December 31, 2014      |                       |                                        |            |                               |             |             |
|                                               | 30 - 59 days past due  | 60 - 89 days past due | 90 days and greater and still accruing | Nonaccrual | Total past due and nonaccrual | Current     | Total       |
|                                               | (dollars in thousands) |                       |                                        |            |                               |             |             |
| Commercial, financial, agricultural and other | \$2,816                | \$213                 | \$264                                  | \$27,007   | \$30,300                      | \$1,021,809 | \$1,052,109 |
| Real estate construction                      | —                      | 1                     | —                                      | 236        | 237                           | 120,548     | 120,785     |
| Residential real estate                       | 5,162                  | 1,295                 | 1,077                                  | 7,900      | 15,434                        | 1,210,910   | 1,226,344   |
| Commercial real estate                        | 1,797                  | 122                   | —                                      | 7,306      | 9,225                         | 1,396,031   | 1,405,256   |
| Loans to individuals                          | 3,698                  | 1,059                 | 1,278                                  | 218        | 6,253                         | 646,561     | 652,814     |
| Total                                         | \$13,473               | \$2,690               | \$2,619                                | \$42,667   | \$61,449                      | \$4,395,859 | \$4,457,308 |
| 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 in 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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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.

There were no impaired loans held for sale at September 30, 2015 and December 31, 2014. During the nine months ended September 30, 2015, \$2.4 million of impaired loans were sold, resulting in the recognition of a gain of \$0.4 million. During the nine months ended September 30, 2014, \$3.1 million of impaired loans were sold, resulting in the recognition of a gain of \$0.1 million.

Significant nonaccrual loans as of September 30, 2015, include the following:

\$6.1 million relationship of commercial industrial loans to an industrial manufacturer. These loans were originated in 2013 and were placed in nonaccrual status during the third quarter of 2015. A valuation of the collateral was completed during the third quarter of 2015.

\$5.7 million relationship of commercial industrial loans to a local energy company. These loans were originated from 2008 to 2011 and were placed in nonaccrual status during the third quarter of 2013. Two of these loans were modified resulting in TDR classification: one loan totaling \$2.3 million was modified in 2012, and the other loan totaling \$2.9 million was modified in 2014. During the nine months ended September 30, 2015, charge-offs of \$3.3 million related to this relationship were recorded. A valuation of the collateral was updated during the first quarter of 2015.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of September 30, 2015 and December 31, 2014. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated using month-end balances of the loans for the period reported and are included in the table below based on their period-end allowance position.

|                                               | September 30, 2015     |                          |                   | December 31, 2014   |                          |                   |
|-----------------------------------------------|------------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|                                               | Recorded investment    | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Related allowance |
|                                               | (dollars in thousands) |                          |                   |                     |                          |                   |
| With no related allowance recorded:           |                        |                          |                   |                     |                          |                   |
| Commercial, financial, agricultural and other | \$10,581               | \$15,618                 |                   | \$9,439             | \$10,937                 |                   |
| Real estate construction                      | 31                     | 119                      |                   | 236                 | 476                      |                   |
| Residential real estate                       | 9,778                  | 11,399                   |                   | 10,773              | 12,470                   |                   |
| Commercial real estate                        | 6,885                  | 7,862                    |                   | 8,768               | 10,178                   |                   |
| Loans to individuals                          | 296                    | 358                      |                   | 288                 | 337                      |                   |
| Subtotal                                      | 27,571                 | 35,356                   |                   | 29,504              | 34,398                   |                   |
| With an allowance recorded:                   |                        |                          |                   |                     |                          |                   |
| Commercial, financial, agricultural and other | 12,812                 | 13,254                   | 4,202             | 24,826              | 25,583                   | 9,304             |
| Real estate construction                      | —                      | —                        | —                 | —                   | —                        | —                 |
| Residential real estate                       | 364                    | 556                      | 20                | 367                 | 380                      | 56                |
| Commercial real estate                        | 80                     | 80                       | 33                | 554                 | 554                      | 101               |
| Loans to individuals                          | —                      | —                        | —                 | —                   | —                        | —                 |



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

|          |          |          |         |          |          |         |
|----------|----------|----------|---------|----------|----------|---------|
| Subtotal | 13,256   | 13,890   | 4,255   | 25,747   | 26,517   | 9,461   |
| Total    | \$40,827 | \$49,246 | \$4,255 | \$55,251 | \$60,915 | \$9,461 |

21

---

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

|                                               | For the Nine Months Ended September 30,  |            |            |            |
|-----------------------------------------------|------------------------------------------|------------|------------|------------|
|                                               | 2015                                     |            | 2014       |            |
|                                               | Average                                  | Interest   | Average    | Interest   |
|                                               | recorded                                 | Income     | recorded   | Income     |
|                                               | investment                               | Recognized | investment | Recognized |
|                                               | (dollars in thousands)                   |            |            |            |
| With no related allowance recorded:           |                                          |            |            |            |
| Commercial, financial, agricultural and other | \$19,199                                 | \$161      | \$15,209   | \$77       |
| Real estate construction                      | 102                                      | —          | 1,506      | 19         |
| Residential real estate                       | 10,987                                   | 118        | 11,047     | 167        |
| Commercial real estate                        | 8,545                                    | 69         | 9,007      | 78         |
| Loans to individuals                          | 312                                      | 14         | 309        | 3          |
| Subtotal                                      | 39,145                                   | 362        | 37,078     | 344        |
| With an allowance recorded:                   |                                          |            |            |            |
| Commercial, financial, agricultural and other | 6,125                                    | 100        | 11,944     | 125        |
| Real estate construction                      | —                                        | —          | —          | —          |
| Residential real estate                       | 275                                      | —          | 1,178      | 12         |
| Commercial real estate                        | 83                                       | 4          | 90         | 3          |
| Loans to individuals                          | —                                        | —          | —          | —          |
| Subtotal                                      | 6,483                                    | 104        | 13,212     | 140        |
| Total                                         | \$45,628                                 | \$466      | \$50,290   | \$484      |
|                                               | For the Three Months Ended September 30, |            |            |            |
|                                               | 2015                                     |            | 2014       |            |
|                                               | Average                                  | Interest   | Average    | Interest   |
|                                               | recorded                                 | Income     | recorded   | Income     |
|                                               | investment                               | Recognized | investment | Recognized |
|                                               | (dollars in thousands)                   |            |            |            |
| With no related allowance recorded:           |                                          |            |            |            |
| Commercial, financial, agricultural and other | \$14,215                                 | \$40       | \$10,973   | \$39       |
| Real estate construction                      | 32                                       | —          | 295        | 1          |
| Residential real estate                       | 10,748                                   | 39         | 10,590     | 38         |
| Commercial real estate                        | 7,894                                    | 26         | 8,873      | 24         |
| Loans to individuals                          | 314                                      | 5          | 346        | 1          |
| Subtotal                                      | 33,203                                   | 110        | 31,077     | 103        |
| With an allowance recorded:                   |                                          |            |            |            |
| Commercial, financial, agricultural and other | 7,700                                    | 29         | 14,140     | 48         |
| Real estate construction                      | —                                        | —          | —          | —          |
| Residential real estate                       | 351                                      | —          | 1,406      | 3          |
| Commercial real estate                        | 81                                       | 1          | 88         | 2          |
| Loans to individuals                          | —                                        | —          | —          | —          |
| Subtotal                                      | 8,132                                    | 30         | 15,634     | 53         |
| Total                                         | \$41,335                                 | \$140      | \$46,711   | \$156      |

Unfunded commitments related to nonperforming loans were \$0.5 million at September 30, 2015 and \$46 thousand at December 31, 2014. After consideration of available collateral related to these commitments, a reserve of \$13 thousand and \$14 thousand was established for these off balance sheet exposures at September 30, 2015 and December 31, 2014, 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.

22

---

## 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 detail as to the total troubled debt restructured loans and total commitments outstanding on troubled debt restructured loans:

|                                  | September 30,<br>2015  | December 31,<br>2014 |
|----------------------------------|------------------------|----------------------|
|                                  | (dollars in thousands) |                      |
| Troubled debt restructured loans |                        |                      |
| Accrual status                   | \$ 12,024              | \$ 12,584            |
| Nonaccrual status                | 8,583                  | 16,952               |
| Total                            | \$ 20,607              | \$ 29,536            |
| Commitments                      |                        |                      |
| Unused lines of credit           | \$ 1,162               | \$ 4,120             |

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

## For the Nine Months Ended September 30, 2015

## Type of Modification

|                                                  | Number<br>of<br>Contracts | Extend<br>Maturity | Modify<br>Rate | Modify<br>Payments | Total<br>Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment | Specific<br>Reserve |
|--------------------------------------------------|---------------------------|--------------------|----------------|--------------------|--------------------------------------------------------------------|----------------------------------------------------------------|---------------------|
|                                                  | (dollars in thousands)    |                    |                |                    |                                                                    |                                                                |                     |
| Commercial, financial,<br>agricultural and other | 4                         | \$ 1,751           | \$—            | \$ 652             | \$ 2,403                                                           | \$ 2,314                                                       | \$ 52               |
| Residential real estate                          | 24                        | —                  | 296            | 958                | 1,254                                                              | 1,165                                                          | —                   |
| Commercial real estate                           | 1                         | —                  | —              | 464                | 464                                                                | 407                                                            | —                   |
| Loans to individuals                             | 8                         | —                  | 61             | 35                 | 96                                                                 | 77                                                             | —                   |
| Total                                            | 37                        | \$ 1,751           | \$ 357         | \$ 2,109           | \$ 4,217                                                           | \$ 3,963                                                       | \$ 52               |

## For the Nine Months Ended September 30, 2014

## Type of Modification

|                                                  | Number<br>of<br>Contracts | Extend<br>Maturity | Modify<br>Rate | Modify<br>Payments | Total<br>Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment | Specific<br>Reserve |
|--------------------------------------------------|---------------------------|--------------------|----------------|--------------------|--------------------------------------------------------------------|----------------------------------------------------------------|---------------------|
|                                                  | (dollars in thousands)    |                    |                |                    |                                                                    |                                                                |                     |
| Commercial, financial,<br>agricultural and other | 2                         | \$ 1,505           | \$—            | \$—                | \$ 1,505                                                           | \$ 1,648                                                       | \$ 27               |
| Residential real estate                          | 44                        | —                  | 468            | 1,767              | 2,235                                                              | 2,091                                                          | 22                  |
| Commercial real estate                           | 1                         | —                  | —              | 8                  | 8                                                                  | 6                                                              | —                   |
| Loans to individuals                             | 13                        | —                  | 81             | 42                 | 123                                                                | 101                                                            | —                   |
| Total                                            | 60                        | \$ 1,505           | \$ 549         | \$ 1,817           | \$ 3,871                                                           | \$ 3,846                                                       | \$ 49               |

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 reamortization of the principal and an extension of the maturity. For the nine months ended September 30, 2015 and 2014, \$0.4 million and \$0.5 million, respectively, of total rate modifications represent loans

with modifications to the rate as well as payment as a result of reamortization. For both 2015 and 2014 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

## For the Three Months Ended September 30, 2015

|                                                  | Type of Modification      |                    |                | Total<br>Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment | Specific<br>Reserve |                    |
|--------------------------------------------------|---------------------------|--------------------|----------------|--------------------------------------------------------------------|----------------------------------------------------------------|---------------------|--------------------|
|                                                  | Number<br>of<br>Contracts | Extend<br>Maturity | Modify<br>Rate |                                                                    |                                                                |                     | Modify<br>Payments |
| (dollars in thousands)                           |                           |                    |                |                                                                    |                                                                |                     |                    |
| Commercial, financial,<br>agricultural and other | 1                         | \$—                | \$—            | \$543                                                              | \$ 543                                                         | \$ 525              | \$—                |
| Residential real estate                          | 8                         | \$—                | \$—            | \$455                                                              | \$ 455                                                         | \$ 455              | \$—                |
| Loans to individuals                             | 2                         | —                  | —              | 18                                                                 | 18                                                             | 16                  | —                  |
| Total                                            | 11                        | \$—                | \$—            | \$1,016                                                            | \$ 1,016                                                       | \$ 996              | \$—                |

## For the Three Months Ended, September 30, 2014

|                         | Type of Modification      |                    |                | Total<br>Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment | Specific<br>Reserve |                    |
|-------------------------|---------------------------|--------------------|----------------|--------------------------------------------------------------------|----------------------------------------------------------------|---------------------|--------------------|
|                         | Number<br>of<br>Contracts | Extend<br>Maturity | Modify<br>Rate |                                                                    |                                                                |                     | Modify<br>Payments |
| (dollars in thousands)  |                           |                    |                |                                                                    |                                                                |                     |                    |
| Residential real estate | 24                        | —                  | 164            | 1,116                                                              | 1,280                                                          | 1,233               | 2                  |
| Loans to individuals    | 3                         | —                  | 8              | 15                                                                 | 23                                                             | 20                  | —                  |
| Total                   | 27                        | \$—                | \$172          | \$1,131                                                            | \$ 1,303                                                       | \$ 1,253            | \$2                |

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 reamortization of the principal and an extension of the maturity. None of the rate modifications for the three months ended September 30, 2015 represent loans with modifications to the rate as well as payment. For the three months ended September 30, 2014, \$0.1 million of total rate modifications represent loans with modifications to the rate as well as payment as a result of reamortization. For both 2015 and 2014 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)

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 restructured loans that were considered to be in default during the nine months ended September 30:

|                         | 2015                                             |                        | 2014                   |                        |
|-------------------------|--------------------------------------------------|------------------------|------------------------|------------------------|
|                         | Number of<br>Contracts<br>(dollars in thousands) | Recorded<br>Investment | Number of<br>Contracts | Recorded<br>Investment |
| Residential real estate | 3                                                | \$ 108                 | 3                      | \$ 18                  |
| Total                   | 3                                                | \$ 108                 | 3                      | \$ 18                  |

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

|                         | 2015                                             |                        | 2014                   |                        |
|-------------------------|--------------------------------------------------|------------------------|------------------------|------------------------|
|                         | Number of<br>Contracts<br>(dollars in thousands) | Recorded<br>Investment | Number of<br>Contracts | Recorded<br>Investment |
| Residential real estate | 2                                                | \$ 105                 | 1                      | \$ 5                   |
| Total                   | 2                                                | \$ 105                 | 1                      | \$ 5                   |

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

|                                                          | For the Nine Months Ended September 30, 2015                                                                                                                                  |          |           |           |          |           |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|-----------|----------|-----------|
|                                                          | Commercial,<br>financial, Real estate Residential Commercial Loans to<br>agricultural construction real estate real estate individuals<br>and other<br>(dollars in thousands) |          |           |           |          |           |
|                                                          |                                                                                                                                                                               |          |           |           |          | Total     |
| Allowance for credit losses:                             |                                                                                                                                                                               |          |           |           |          |           |
| Beginning Balance                                        | \$29,627                                                                                                                                                                      | \$ 2,063 | \$ 3,664  | \$ 11,881 | \$ 4,816 | \$ 52,051 |
| Charge-offs                                              | (8,579 )                                                                                                                                                                      | —        | (1,351 )  | (1,249 )  | (3,283 ) | (14,462 ) |
| Recoveries                                               | 922                                                                                                                                                                           | 84       | 417       | 186       | 502      | 2,111     |
| Provision (credit)                                       | 5,230                                                                                                                                                                         | (554 )   | (54 )     | 1,584     | 2,612    | 8,818     |
| Ending Balance                                           | \$27,200                                                                                                                                                                      | \$ 1,593 | \$ 2,676  | \$ 12,402 | \$ 4,647 | \$ 48,518 |
| Ending balance: individually evaluated<br>for impairment | \$4,202                                                                                                                                                                       | \$ —     | \$ 20     | \$ 33     | \$ —     | \$ 4,255  |
| Ending balance: collectively evaluated<br>for impairment | 22,998                                                                                                                                                                        | 1,593    | 2,656     | 12,369    | 4,647    | 44,263    |
| Loans:                                                   |                                                                                                                                                                               |          |           |           |          |           |
| Ending balance                                           | 1,126,881                                                                                                                                                                     | 179,710  | 1,204,220 | 1,435,954 | 628,970  | 4,575,735 |
| Ending balance: individually evaluated<br>for impairment | 22,852                                                                                                                                                                        | —        | 6,037     | 5,706     | —        | 34,595    |
| Ending balance: collectively evaluated<br>for impairment | 1,104,029                                                                                                                                                                     | 179,710  | 1,198,183 | 1,430,248 | 628,970  | 4,541,140 |

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

|                                                          | For the Nine Months Ended September 30, 2014                                     |                             |                            |                           |                         |           |
|----------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------|-------------------------|-----------|
|                                                          | Commercial,<br>financial,<br>agricultural<br>and other<br>(dollars in thousands) | Real estate<br>construction | Residential<br>real estate | Commercial<br>real estate | Loans to<br>individuals | Total     |
| Allowance for credit losses:                             |                                                                                  |                             |                            |                           |                         |           |
| Beginning Balance                                        | \$22,663                                                                         | \$6,600                     | \$7,727                    | \$11,778                  | \$5,457                 | \$54,225  |
| Charge-offs                                              | (8,357 )                                                                         | (296 )                      | (2,286 )                   | (1,109 )                  | (2,581 )                | (14,629 ) |
| Recoveries                                               | 625                                                                              | 469                         | 420                        | 432                       | 621                     | 2,567     |
| Provision (credit)                                       | 4,773                                                                            | 1,331                       | (407 )                     | 1,453                     | 1,471                   | 8,621     |
| Ending Balance                                           | \$19,704                                                                         | \$8,104                     | \$5,454                    | \$12,554                  | \$4,968                 | \$50,784  |
| Ending balance: individually<br>evaluated for impairment | \$4,271                                                                          | \$—                         | \$332                      | \$29                      | \$—                     | \$4,632   |
| Ending balance: collectively<br>evaluated for impairment | 15,433                                                                           | 8,104                       | 5,122                      | 12,525                    | 4,968                   | 46,152    |
| Loans:                                                   |                                                                                  |                             |                            |                           |                         |           |
| Ending balance                                           | 1,071,531                                                                        | 115,788                     | 1,234,842                  | 1,345,302                 | 644,018                 | 4,411,481 |
| Ending balance: individually<br>evaluated for impairment | 23,773                                                                           | 199                         | 6,854                      | 6,890                     | —                       | 37,716    |
| Ending balance: collectively<br>evaluated for impairment | 1,047,758                                                                        | 115,589                     | 1,227,988                  | 1,338,412                 | 644,018                 | 4,373,765 |

|                              | For the Three Months Ended September 30, 2015                                    |                             |                            |                           |                         |          |
|------------------------------|----------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------|-------------------------|----------|
|                              | Commercial,<br>financial,<br>agricultural<br>and other<br>(dollars in thousands) | Real estate<br>construction | Residential<br>real estate | Commercial<br>real estate | Loans to<br>individuals | Total    |
| Allowance for credit losses: |                                                                                  |                             |                            |                           |                         |          |
| Beginning Balance            | \$23,755                                                                         | \$1,518                     | \$2,923                    | \$12,227                  | \$4,921                 | \$45,344 |
| Charge-offs                  | (639 )                                                                           | —                           | (301 )                     | (561 )                    | (900 )                  | (2,401 ) |
| Recoveries                   | 564                                                                              | —                           | 178                        | 33                        | 179                     | 954      |
| Provision (credit)           | 3,520                                                                            | 75                          | (124 )                     | 703                       | 447                     | 4,621    |
| Ending Balance               | \$27,200                                                                         | \$1,593                     | \$2,676                    | \$12,402                  | \$4,647                 | \$48,518 |

|                              | For the Three Months Ended, September 30, 2014                                   |                             |                            |                           |                         |          |
|------------------------------|----------------------------------------------------------------------------------|-----------------------------|----------------------------|---------------------------|-------------------------|----------|
|                              | Commercial,<br>financial,<br>agricultural<br>and other<br>(dollars in thousands) | Real estate<br>construction | Residential<br>real estate | Commercial<br>real estate | Loans to<br>individuals | Total    |
| Allowance for credit losses: |                                                                                  |                             |                            |                           |                         |          |
| Beginning Balance            | \$21,956                                                                         | \$5,899                     | \$6,125                    | \$11,661                  | \$5,084                 | \$50,725 |
| Charge-offs                  | (498 )                                                                           | —                           | (551 )                     | (812 )                    | (1,019 )                | (2,880 ) |
| Recoveries                   | 204                                                                              | 132                         | 97                         | 177                       | 256                     | 866      |



|                    |          |         |         |          |         |          |
|--------------------|----------|---------|---------|----------|---------|----------|
| Provision (credit) | (1,958   | ) 2,073 | (217    | ) 1,528  | 647     | 2,073    |
| Ending Balance     | \$19,704 | \$8,104 | \$5,454 | \$12,554 | \$4,968 | \$50,784 |

Note 9 Income Taxes

At September 30, 2015 and December 31, 2014, 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 tax years 2012 through 2014 were open for examination as of September 30, 2015.

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Fair Values of Assets and Liabilities

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

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

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

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange ("NYSE"). Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 securities include equity holdings comprised of publicly traded bank stocks which were priced using quoted market prices.

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

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

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

Other investments recorded in the Condensed Consolidated Statements of Financial Condition are comprised of FHLB stock whose estimated fair value is based on its par value. Additional information on FHLB stock is provided in Note 7, "Impairment of Investment Securities."

Loans held for sale include residential mortgage loans originated for sale in the secondary mortgage market. The estimated fair value for these loans was determined on the basis of rates obtained in the respective secondary market. 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 three months, Eurodollar futures contracts and swap rates from three years to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 11, "Derivatives."

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2015, we have not realized any losses due to a counterparty's inability to pay any uncollateralized positions.

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

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

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

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

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

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

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

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).

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

|                                   | Fair Value (dollars<br>in thousands) | Valuation<br>Technique   | Unobservable Inputs    | Range /<br>(weighted average) |
|-----------------------------------|--------------------------------------|--------------------------|------------------------|-------------------------------|
| Pooled Trust Preferred Securities | \$35,779                             | Discounted Cash Flow     | Probability of default | 0% - 100% (13.72%)            |
|                                   |                                      |                          | Prepayment rates       | 0% - 73.52% (5.09%)           |
|                                   |                                      |                          | Discount rates         | 5.25% - 12.00% (a)            |
| Equities                          | 1,920                                | Par Value                | N/A                    | N/A                           |
| Impaired Loans                    | 2,903                                | (b) Reserve study        | Discount rate          | 10.00%                        |
|                                   |                                      |                          | Gas per MCF            | \$2.71 - \$3.48 (c)           |
|                                   |                                      |                          | Oil per BBL/d          | \$55.00 (c)                   |
|                                   | 520                                  | (b) Discounted Cash Flow | Discount Rate          | 1.90%                         |
| Other Real Estate Owned           | 8                                    | Internal Valuation       | N/A                    | N/A                           |

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

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

(c) unobservable inputs are defined as follows: MCF - million cubic feet; BBL/d - barrels per day.

The significant unobservable inputs used in the fair value measurement of pooled trust preferred securities are the probability of default, discount rates and prepayment rates. Significant increases in the probability of default or discount rate used would result in a decrease in the estimated fair value of these securities, while decreases in these variables would result in higher fair value measurements. In general, a change in the assumption of probability of default is accompanied by a directionally similar change in the discount rate. In most cases, increases in the prepayment rate assumptions would result in a higher estimated fair value for these securities while decreases would provide for a lower value. The direction of this change is somewhat dependent on the structure of the investment and the amount of the investment tranches senior to our position.

The discount rate is the significant unobservable input used in the fair value measurement of impaired loans.

Significant increases in this rate would result in a decrease in the estimated fair value of the loans, while a decrease in this rate would result in a higher fair value measurement. Other unobservable inputs in the fair value measurement of impaired loans relate to gas, oil and natural gas prices. Increases in these prices would result in an increase in the estimated fair value of the loans, while a decrease in these prices would result in a lower fair value measurement.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

|                                                        | September 30, 2015     |             |          | Total       |
|--------------------------------------------------------|------------------------|-------------|----------|-------------|
|                                                        | Level 1                | Level 2     | Level 3  |             |
|                                                        | (dollars in thousands) |             |          |             |
| Obligations of U.S. Government Agencies:               |                        |             |          |             |
| Mortgage-Backed Securities - Residential               | \$—                    | \$23,281    | \$—      | \$23,281    |
| Obligations of U.S. Government-Sponsored Enterprises:  |                        |             |          |             |
| Mortgage-Backed Securities - Residential               | —                      | 824,152     | —        | 824,152     |
| Mortgage-Backed Securities - Commercial                | —                      | 38          | —        | 38          |
| Other Government-Sponsored Enterprises                 | —                      | 135,781     | —        | 135,781     |
| Obligations of States and Political Subdivisions       | —                      | 27,449      | —        | 27,449      |
| Corporate Securities                                   | —                      | 2,333       | —        | 2,333       |
| Pooled Trust Preferred Collateralized Debt Obligations | —                      | —           | 35,779   | 35,779      |
| Total Debt Securities                                  | —                      | 1,013,034   | 35,779   | 1,048,813   |
| Equities                                               | —                      | —           | 1,920    | 1,920       |
| Total Securities Available for Sale                    | —                      | 1,013,034   | 37,699   | 1,050,733   |
| Other Investments                                      | —                      | 53,976      | —        | 53,976      |
| Loans held for sale                                    | —                      | 4,986       | —        | 4,986       |
| Other Assets(a)                                        | —                      | 16,303      | —        | 16,303      |
| Total Assets                                           | \$—                    | \$1,088,299 | \$37,699 | \$1,125,998 |
| Other Liabilities(a)                                   | \$—                    | \$14,333    | \$—      | \$14,333    |
| Total Liabilities                                      | \$—                    | \$14,333    | \$—      | \$14,333    |

(a) Hedging and non-hedging interest rate derivatives

|                                                        | December 31, 2014      |           |         | Total     |
|--------------------------------------------------------|------------------------|-----------|---------|-----------|
|                                                        | Level 1                | Level 2   | Level 3 |           |
|                                                        | (dollars in thousands) |           |         |           |
| Obligations of U.S. Government Agencies:               |                        |           |         |           |
| Mortgage-Backed Securities - Residential               | \$—                    | \$25,936  | \$—     | \$25,936  |
| Obligations of U.S. Government-Sponsored Enterprises:  |                        |           |         |           |
| Mortgage-Backed Securities - Residential               | —                      | 950,881   | —       | 950,881   |
| Mortgage-Backed Securities - Commercial                | —                      | 74        | —       | 74        |
| Other Government-Sponsored Enterprises                 | —                      | 267,877   | —       | 267,877   |
| Obligations of States and Political Subdivisions       | —                      | 27,377    | —       | 27,377    |
| Corporate Securities                                   | —                      | 7,255     | —       | 7,255     |
| Pooled Trust Preferred Collateralized Debt Obligations | —                      | —         | 28,999  | 28,999    |
| Total Debt Securities                                  | —                      | 1,279,400 | 28,999  | 1,308,399 |
| Equities                                               | —                      | —         | 1,420   | 1,420     |
| Total Securities Available for Sale                    | —                      | 1,279,400 | 30,419  | 1,309,819 |
| Other Investments                                      | —                      | 44,545    | —       | 44,545    |
| Loans Held for Sale                                    | —                      | 2,502     | —       | 2,502     |
| Other Assets(a)                                        | —                      | 11,186    | —       | 11,186    |

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

|                                                       |     |             |          |             |
|-------------------------------------------------------|-----|-------------|----------|-------------|
| Total Assets                                          | \$— | \$1,337,633 | \$30,419 | \$1,368,052 |
| Other Liabilities(a)                                  | \$— | \$10,671    | \$—      | \$10,671    |
| Total Liabilities                                     | \$— | \$10,671    | \$—      | \$10,671    |
| (a) Hedging and non-hedging interest rate derivatives |     |             |          |             |

30

---

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

|                                              | 2015                                                   |          |  |          |
|----------------------------------------------|--------------------------------------------------------|----------|--|----------|
|                                              | Pooled Trust Preferred Collateralized Debt Obligations | Equities |  | Total    |
|                                              | (dollars in thousands)                                 |          |  |          |
| Balance, beginning of period                 | \$28,999                                               | \$1,420  |  | \$30,419 |
| Total gains or losses                        |                                                        |          |  |          |
| Included in earnings                         | 105                                                    | —        |  | 105      |
| Included in other comprehensive income       | 7,729                                                  | —        |  | 7,729    |
| Purchases, issuances, sales, and settlements |                                                        |          |  |          |
| Purchases                                    | —                                                      | 500      |  | 500      |
| Issuances                                    | —                                                      | —        |  | —        |
| Sales                                        | —                                                      | —        |  | —        |
| Settlements                                  | (1,054                                                 | ) —      |  | (1,054   |
| Transfers into Level 3                       | —                                                      | —        |  | —        |
| Balance, end of period                       | \$35,779                                               | \$1,920  |  | \$37,699 |

|                                              | 2014                                                   |          |                     |          |
|----------------------------------------------|--------------------------------------------------------|----------|---------------------|----------|
|                                              | Pooled Trust Preferred Collateralized Debt Obligations | Equities | Loans Held for Sale | Total    |
|                                              | (dollars in thousands)                                 |          |                     |          |
| Balance, beginning of period                 | \$23,523                                               | \$1,420  | \$—                 | \$24,943 |
| Total gains or losses                        |                                                        |          |                     |          |
| Included in earnings                         | —                                                      | —        | 77                  | 77       |
| Included in other comprehensive income       | 7,266                                                  | —        | —                   | 7,266    |
| Purchases, issuances, sales, and settlements |                                                        |          |                     |          |
| Purchases                                    | —                                                      | —        | —                   | —        |
| Issuances                                    | —                                                      | —        | —                   | —        |
| Sales                                        | —                                                      | —        | (3,112              | ) (3,112 |
| Settlements                                  | (1,333                                                 | ) —      | —                   | (1,333   |
| Transfers into Level 3                       | —                                                      | —        | 3,035               | 3,035    |
| Balance, end of period                       | \$29,456                                               | \$1,420  | \$—                 | \$30,876 |

During the nine months ended September 30, 2015 and 2014, there were no transfers between fair value Levels 1 and 2. During the nine months ended September 30, 2015, there were no transfers between fair value Levels 2 and 3. However, \$3.0 million of loans were transferred into Level 3 from Level 2 during the nine months ended September 30, 2014 due to the loans being transferred to a held for sale status. The loans transferred and subsequently sold related to three nonperforming loan relationships for which this was determined to be the appropriate exit strategy. There were no gains or losses included in earnings for the periods presented that are attributable to the change in realized gains (losses) relating to assets held at September 30, 2015 and 2014.





## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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

|                                              | 2015                   |          |                |          |
|----------------------------------------------|------------------------|----------|----------------|----------|
|                                              | Pooled Trust           | Equities |                | Total    |
|                                              | Preferred              |          |                |          |
|                                              | Collateralized         |          |                |          |
|                                              | Debt Obligations       |          |                |          |
|                                              | (dollars in thousands) |          |                |          |
| Balance, beginning of period                 | \$35,521               | \$1,920  |                | \$37,441 |
| Total gains or losses                        |                        |          |                |          |
| Included in earnings                         | —                      | —        |                | —        |
| Included in other comprehensive income       | 258                    | —        |                | 258      |
| Purchases, issuances, sales, and settlements |                        |          |                |          |
| Purchases                                    | —                      | —        |                | —        |
| Issuances                                    | —                      | —        |                | —        |
| Sales                                        | —                      | —        |                | —        |
| Settlements                                  | —                      | —        |                | —        |
| Transfers into Level 3                       | —                      | —        |                | —        |
| Balance, end of period                       | \$35,779               | \$1,920  |                | \$37,699 |
|                                              | 2014                   |          |                |          |
|                                              | Pooled Trust           | Equities | Loans Held for | Total    |
|                                              | Preferred              |          | Sale           |          |
|                                              | Collateralized         |          |                |          |
|                                              | Debt                   |          |                |          |
|                                              | Obligations            |          |                |          |
|                                              | (dollars in thousands) |          |                |          |
| Balance, beginning of period                 | \$28,154               | \$1,420  | \$—            | 29,574   |
| Total gains or losses                        |                        |          |                |          |
| Included in earnings                         | —                      | —        | —              | —        |
| Included in other comprehensive income       | 1,470                  | —        | —              | 1,470    |
| Purchases, issuances, sales, and settlements |                        |          |                |          |
| Purchases                                    | —                      | —        | —              | —        |
| Issuances                                    | —                      | —        | —              | —        |
| Sales                                        | —                      | —        | —              | —        |
| Settlements                                  | (168                   | )        | —              | (168     |
| Transfers into Level 3                       | —                      | —        | —              | —        |
| Balance, end of period                       | \$29,456               | \$1,420  | \$—            | \$30,876 |

During the three months ended September 30, 2015 and 2014, there were no transfers between fair value Levels 1 and 2.

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

|                         | September 30, 2015     |          |         |          |
|-------------------------|------------------------|----------|---------|----------|
|                         | Level 1                | Level 2  | Level 3 | Total    |
|                         | (dollars in thousands) |          |         |          |
| Impaired loans          | \$—                    | \$26,916 | \$9,656 | \$36,572 |
| Other real estate owned | —                      | 12,386   | 8       | 12,394   |

|              |     |          |         |          |
|--------------|-----|----------|---------|----------|
| Total Assets | \$— | \$39,302 | \$9,664 | \$48,966 |
|--------------|-----|----------|---------|----------|

32

---

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

|                                                                                    | December 31, 2014          |          |                           |           |
|------------------------------------------------------------------------------------|----------------------------|----------|---------------------------|-----------|
|                                                                                    | Level 1                    | Level 2  | Level 3                   | Total     |
|                                                                                    | (dollars in thousands)     |          |                           |           |
| Impaired loans                                                                     | \$—                        | \$34,864 | \$10,926                  | \$45,790  |
| Other real estate owned                                                            | —                          | 7,828    | 153                       | 7,981     |
| Total Assets                                                                       | \$—                        | \$42,692 | \$11,079                  | \$53,771  |
| The following losses were realized on the assets measured on a nonrecurring basis: |                            |          |                           |           |
|                                                                                    | For the Three Months Ended |          | For the Nine Months Ended |           |
|                                                                                    | September 30,              |          | September 30,             |           |
|                                                                                    | 2015                       | 2014     | 2015                      | 2014      |
|                                                                                    | (dollars in thousands)     |          |                           |           |
| Impaired loans                                                                     | \$(2,838)                  | \$456    | \$(3,532)                 | \$(1,291) |
| Other real estate owned                                                            | (78)                       | (51)     | (1,205)                   | (1,109)   |
| Total losses                                                                       | \$(2,916)                  | \$405    | \$(4,737)                 | \$(2,400) |

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. Other real estate owned has a book cost of \$10.5 million as of September 30, 2015 and consisted primarily of 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 non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Additional information related to goodwill is provided in Note 12, "Goodwill." There were no other assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2015.

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

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

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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, which is not an exit price under FASB ASC Topic 820, "Fair Value Measurements and Disclosures."

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

Off-balance sheet instruments: Many of First Commonwealth's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. FASB ASC Topic 460, "Guarantees" clarified that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The carrying amount and fair value for standby letters of credit was \$0.2 million at September 30, 2015 and December 31, 2014, respectively. See Note 5, "Commitments and Contingent Liabilities," for additional information.

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

Short-term borrowings: The fair values of borrowings from the FHLB were estimated based on the estimated incremental borrowing rate for similar types of 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.

Long-term debt and subordinated debt: The fair value of long-term debt and subordinated debt 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.

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

|                               | September 30, 2015                        |                                |          |           |           |
|-------------------------------|-------------------------------------------|--------------------------------|----------|-----------|-----------|
|                               | Carrying Amount<br>(dollars in thousands) | Fair Value Measurements Using: |          |           |           |
|                               |                                           | Total                          | Level 1  | Level 2   | Level 3   |
| <b>Financial assets</b>       |                                           |                                |          |           |           |
| Cash and due from banks       | \$69,235                                  | \$69,235                       | \$69,235 | \$—       | \$—       |
| Interest-bearing deposits     | 3,529                                     | 3,529                          | 3,529    | —         | —         |
| Securities available for sale | 1,050,733                                 | 1,050,733                      | —        | 1,013,034 | 37,699    |
| Securities held to maturity   | 154,035                                   | 154,837                        | —        | 154,837   | —         |
| Other investments             | 53,976                                    | 53,976                         | —        | 53,976    | —         |
| Loans held for sale           | 4,986                                     | 4,986                          | —        | 4,986     | —         |
| Loans                         | 4,575,735                                 | 4,596,889                      | —        | 26,916    | 4,569,973 |
| <b>Financial liabilities</b>  |                                           |                                |          |           |           |
| Deposits                      | 4,161,490                                 | 4,164,660                      | —        | 4,164,660 | —         |
| Short-term borrowings         | 1,329,794                                 | 1,329,920                      | —        | 1,329,920 | —         |
| Subordinated debt             | 72,167                                    | 62,227                         | —        | —         | 62,227    |
| Long-term debt                | 39,052                                    | 39,704                         | —        | 39,704    | —         |



## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

|                               | December 31, 2014                            |                                |          |           |           |
|-------------------------------|----------------------------------------------|--------------------------------|----------|-----------|-----------|
|                               | Carrying<br>Amount<br>(dollars in thousands) | Fair Value Measurements Using: |          |           |           |
| Total                         |                                              | Level 1                        | Level 2  | Level 3   |           |
| Financial assets              |                                              |                                |          |           |           |
| Cash and due from banks       | \$72,276                                     | \$72,276                       | \$72,276 | \$—       | \$—       |
| Interest-bearing deposits     | 2,262                                        | 2,262                          | 2,262    | —         | —         |
| Securities available for sale | 1,309,819                                    | 1,309,819                      | —        | 1,279,400 | 30,419    |
| Other investments             | 44,545                                       | 44,545                         | —        | 44,545    | —         |
| Loans held for sale           | 2,502                                        | 2,502                          | —        | 2,502     | —         |
| Loans                         | 4,457,308                                    | 4,439,766                      | —        | 34,864    | 4,404,902 |
| Financial liabilities         |                                              |                                |          |           |           |
| Deposits                      | 4,315,511                                    | 4,319,997                      | —        | 4,319,997 | —         |
| Short-term borrowings         | 1,105,876                                    | 1,105,867                      | —        | 1,105,867 | —         |
| Subordinated debt             | 72,167                                       | 62,815                         | —        | —         | 62,815    |
| Long-term debt                | 89,459                                       | 90,319                         | —        | 90,319    | —         |

## Note 11 Derivatives

## Derivatives Not Designated as Hedging Instruments

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

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

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

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

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

## Derivatives Designated as Hedging Instruments

The Company has entered into four interest rate swap contracts that were designated as cash flow hedges. The interest rate swaps have a total notional amount of \$200.0 million, \$85.0 million with an original maturity of three years and



\$115.0 million with an original maturity of four years. The Company's risk management objective for these hedges is to reduce its exposure to variability in expected future cash flows related to interest payments on commercial loans benchmarked to the 1-month LIBOR rate. Therefore, the interest rate swaps convert the interest payments on the first \$200.0 million of 1-month LIBOR based commercial loans into fixed rate payments.

## ITEM 1. Financial Statements and Supplementary Data

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

The periodic net settlement of interest rate swaps is recorded as an adjustment to Interest and fees on loans in the Condensed Consolidated Statements of Income. For the nine months ended September 30, 2015, there was a \$1.5 million impact on interest income as a result of these interest rate swaps. Changes in the fair value of the effective portion of cash flow hedges are reported in OCI. When the cash flows associated with the hedged item are realized, the gain or loss included in OCI is recognized in "Interest and fees on loans," the same line item in the Condensed Consolidated Statements of Income as the income on the hedged items. The cash flow hedges were highly effective at September 30, 2015, and December 31, 2014, and changes in the fair value attributed to hedge ineffectiveness were not material.

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

|                                                         | September 30,<br>2015  |   | December 31,<br>2014 |   |
|---------------------------------------------------------|------------------------|---|----------------------|---|
|                                                         | (dollars in thousands) |   |                      |   |
| Derivatives not Designated as Hedging Instruments       |                        |   |                      |   |
| Credit value adjustment                                 | \$(688                 | ) | \$(268               | ) |
| Notional Amount:                                        |                        |   |                      |   |
| Interest rate derivatives                               | 271,371                |   | 273,388              |   |
| Interest rate caps                                      | 23,447                 |   | 6,656                |   |
| Risk participation agreements                           | 124,116                |   | 113,624              |   |
| Sold credit protection on risk participation agreements | (17,635                | ) | (17,296              | ) |
| Derivatives Designated as Hedging Instruments           |                        |   |                      |   |
| Fair value adjustment                                   | 2,644                  |   | 472                  |   |
| Notional Amount - Interest rate derivatives             | 200,000                |   | 100,000              |   |

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

|                                        | For the Three Months Ended<br>September 30, |      | For the Nine Months Ended<br>September 30, |      |
|----------------------------------------|---------------------------------------------|------|--------------------------------------------|------|
|                                        | 2015                                        | 2014 | 2015                                       | 2014 |
|                                        | (dollars in thousands)                      |      |                                            |      |
| Non-hedging interest rate derivatives  |                                             |      |                                            |      |
| (Decrease) increase in other income    | \$(783                                      | )    | \$(108                                     | )    |
| Hedging interest rate derivatives      |                                             |      |                                            |      |
| Increase in interest and fees on loans | 565                                         | 29   | 1,503                                      | 29   |
| Increase in other expense              | —                                           | —    | 21                                         | —    |

## Note 12 Goodwill

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

We consider First Commonwealth to be one reporting unit. The carrying amount of goodwill as of September 30, 2015 and December 31, 2014 was \$161.4 million. No impairment charges on goodwill or other intangible assets were

incurred in 2015 or 2014.

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

As of September 30, 2015, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance, the fair value of our assets and liabilities, or our stock price could result in impairment, which could

36

---

ITEM 1. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adversely affect earnings in future periods. Management will continue to monitor events that could impact this conclusion in the future.

Note 13 Subsequent Events

On October 1, 2015, First Commonwealth Bank, the banking subsidiary of First Commonwealth Financial Corporation, completed its acquisition of Columbus, Ohio based First Community Bank in an all-cash deal valued at \$14.8 million. First Community Bank has assets of \$102.8 million and four branch locations which will operate under the First Commonwealth name.

Note 14 New Accounting Pronouncements

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)," which finalizes Proposed ASU No. 2014-220, and eliminates the concept of extraordinary items from U.S. GAAP. Accordingly, this ASU eliminates FASB ASC Subtopic 225-20, "Income Statement - Extraordinary and Unusual Items", which, until now, required that an entity separately classify, present, and disclose extraordinary events and transactions. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805)," requires that the acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adjustments are required to be presented separately on the face of the income statement or disclosed in the notes to show the portion of current-period earnings by line item that would have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

Table of Contents

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

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ("First Commonwealth") for the nine months ended September 30, 2015 and 2014, and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in our future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute "forward-looking statements" as well. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of words such as "may," "will," "should," "could," "would," "plan," "believe," "expect," "anticipate," "intend," "estimate" or similar meaning. These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors, including, but not limited to: (1) local, regional, national and international economic conditions and the impact they may have on First Commonwealth and its customers; (2) volatility and disruption in national and international financial markets; (3) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board; (4) inflation, interest rate, commodity price, securities market and monetary fluctuations; (5) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which First Commonwealth or its customers must comply; (6) the soundness of other financial institutions; (7) political instability; (8) impairment of First Commonwealth's goodwill or other intangible assets; (9) acts of God or of war or terrorism; (10) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (11) changes in consumer spending, borrowings and savings habits; (12) changes in the financial performance and/or condition of First Commonwealth's borrowers; (13) technological changes; (14) acquisitions and integration of acquired businesses; (15) First Commonwealth's ability to attract and retain qualified employees; (16) changes in the competitive environment in First Commonwealth's markets and among banking organizations and other financial service providers; (17) the ability to increase market share and control expenses; (18) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (19) the reliability of First Commonwealth's vendors, internal control systems or information systems; (20) the costs and effects of legal and regulatory developments, the resolution of legal proceedings or regulatory or other governmental inquiries, the results of regulatory examinations or reviews and the ability to obtain required regulatory approvals; and (21) other risks and uncertainties described in this report and in the other reports that we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements in this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Explanation of Use of Non-GAAP Financial Measure

In addition to the results of operations presented in accordance with generally accepted accounting principles ("GAAP"), First Commonwealth management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis. We believe this non-GAAP financial measure provides information useful to investors in understanding our underlying operational performance and our business and performance trends as it facilitates comparison with the performance of others in the financial services

industry. Although we believe that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP. We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on pages 40 and 47 for the nine and three months ended September 30, 2015 and 2014, respectively.

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

Selected Financial Data

The following selected financial data is not covered by the auditor's report and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, and with the Condensed Consolidated Financial Statements and related notes.

|                                          | For the Three Months Ended                    |             | For the Nine Months Ended |             |   |
|------------------------------------------|-----------------------------------------------|-------------|---------------------------|-------------|---|
|                                          | September 30,                                 |             | September 30,             |             |   |
|                                          | 2015                                          | 2014        | 2015                      | 2014        |   |
|                                          | (dollars in thousands, except per share data) |             |                           |             |   |
| Net Income                               | \$12,414                                      | \$12,496    | \$40,082                  | \$36,724    |   |
| Per Share Data:                          |                                               |             |                           |             |   |
| Basic Earnings per Share                 | \$0.14                                        | \$0.13      | \$0.45                    | \$0.39      |   |
| Diluted Earnings per Share               | 0.14                                          | 0.13        | 0.45                      | 0.39        |   |
| Cash Dividends Declared per Common Share | 0.07                                          | 0.07        | 0.21                      | 0.21        |   |
| Average Balance:                         |                                               |             |                           |             |   |
| Total assets                             | \$6,343,009                                   | \$6,325,068 | \$6,354,128               | \$6,260,109 |   |
| Total equity                             | 718,178                                       | 717,859     | 716,200                   | 719,002     |   |
| End of Period Balance:                   |                                               |             |                           |             |   |
| Net loans                                |                                               |             | \$4,532,203               | \$4,360,697 |   |
| Total assets                             |                                               |             | 6,384,749                 | 6,356,098   |   |
| Total deposits                           |                                               |             | 4,161,490                 | 4,372,388   |   |
| Total equity                             |                                               |             | 722,768                   | 709,484     |   |
| Key Ratios:                              |                                               |             |                           |             |   |
| Return on average assets                 | 0.78                                          | % 0.78      | % 0.84                    | % 0.78      | % |
| Return on average equity                 | 6.86                                          | % 6.91      | % 7.48                    | % 6.83      | % |
| Dividends payout ratio                   | 50.00                                         | % 53.85     | % 46.67                   | % 53.85     | % |
| Average equity to average assets ratio   | 11.32                                         | % 11.35     | % 11.27                   | % 11.49     | % |
| Net interest margin                      | 3.25                                          | % 3.26      | % 3.29                    | % 3.28      | % |
| Net loans to deposits ratio              |                                               |             | 108.91                    | % 99.73     | % |

Results of Operations

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Net Income

For the nine months ended September 30, 2015, First Commonwealth had net income of \$40.1 million, or \$0.45 diluted earnings per share, compared to net income of \$36.7 million, or \$0.39 diluted earnings per share, in the nine months ended September 30, 2014. The increase in net income was primarily the result of an increase in net interest income and declines in noninterest expense, partially offset by declines in noninterest income.

For the nine months ended September 30, 2015, the Company's return on average equity was 7.48% and its return on average assets was 0.84%, compared to 6.83% and 0.78%, respectively, for the nine months ended September 30, 2014.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was \$142.8 million in the first nine months of 2015, compared to \$140.0 million for the same period in 2014. This increase was primarily due to growth in earning assets of \$105.9 million, an 8 basis point, or \$2.7 million, decrease in interest expense and a \$1.0 million special dividend on FHLB stock received in 2015. Net interest income comprises a majority of our operating revenue (net interest income before provision expense plus noninterest income) at 75% for the nine months ended September 30, 2015 and 2014. The net interest margin, on a fully taxable equivalent basis, was 3.29% and 3.28% for the nine months ended September 30,

2015 and September 30, 2014, respectively.



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

The taxable equivalent yield on interest-earning assets was 3.55% for the nine months ended September 30, 2015, a decrease of 7 basis points compared to the 3.62% yield for the same period in 2014. Growth in earning assets has helped to offset the spread compression, as average earning assets for the nine months ended September 30, 2015 increased \$105.9 million, or 2%, compared to the same period in 2014. Average loans for the nine months ended September 30, 2015 increased \$177.8 million, or 4.1% compared to the same period in 2014. Investment portfolio purchases during the nine months ended September 30, 2015 have been primarily in mortgage-related assets with approximate durations of 48-60 months and municipal securities with a duration of five years. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities as interest rates rise. Reductions in the cost of interest-bearing liabilities offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.34% for the nine months ended September 30, 2015, compared to 0.42% for the same period in 2014. This decline is primarily due to a 30 basis point decrease in the cost of time deposits as maturities repriced to lower rates or were replaced with lower cost short-term borrowings.

For the nine months ended September 30, 2015, changes in interest rates negatively impacted net interest income by \$4.5 million when compared with the same period in 2014. The lower yield on interest-earning assets adversely impacted net interest income by \$4.5 million, while the decline in the cost of interest-bearing liabilities had a positive impact of \$25 thousand. We have been able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposits and borrowed funds, growing the loan portfolio and increasing our investment volumes within established interest rate risk management guidelines.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets offset the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by \$7.2 million in the nine months ended September 30, 2015, as compared to the same period in 2014. Higher levels of interest-earning assets resulted in an increase of \$4.5 million in interest income, while volume changes decreased interest expense by \$2.8 million, primarily as the result of changes in time deposits, including brokered deposits.

Net interest income also benefited from a \$96.2 million increase in average net free funds at September 30, 2015 as compared to September 30, 2014. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders' equity over noninterest-earning assets. The largest component of the increase in net free funds was an increase of \$84.1 million, or 8.8%, in noninterest-bearing demand deposit average balances. Additionally, higher cost time deposits continue to mature and reprice into lower cost deposits or other funding alternatives. Average time deposits for the nine months ended September 30, 2015 decreased by \$351.5 million compared to the comparable period in 2014.

The following table reconciles interest income in the Condensed Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the nine months ended September 30:

|                                                                           | 2015                   | 2014      |
|---------------------------------------------------------------------------|------------------------|-----------|
|                                                                           | (dollars in thousands) |           |
| Interest income per Condensed Consolidated Statements of Income           | \$151,736              | \$151,761 |
| Adjustment to fully taxable equivalent basis                              | 2,536                  | 2,502     |
| Interest income adjusted to fully taxable equivalent basis (non-GAAP)     | 154,272                | 154,263   |
| Interest expense                                                          | 11,509                 | 14,234    |
| Net interest income adjusted to fully taxable equivalent basis (non-GAAP) | \$142,763              | \$140,029 |



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

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

|                                                              | 2015            |                      |               | 2014            |                      |               |   |
|--------------------------------------------------------------|-----------------|----------------------|---------------|-----------------|----------------------|---------------|---|
|                                                              | Average Balance | Income / Expense (a) | Yield or Rate | Average Balance | Income / Expense (a) | Yield or Rate |   |
| (dollars in thousands)                                       |                 |                      |               |                 |                      |               |   |
| <b>Assets</b>                                                |                 |                      |               |                 |                      |               |   |
| Interest-earning assets:                                     |                 |                      |               |                 |                      |               |   |
| Interest-bearing deposits with banks                         | \$3,993         | \$7                  | 0.23          | %\$4,113        | \$8                  | 0.26          | % |
| Tax-free investment securities                               | 34,374          | 994                  | 3.87          | 8,998           | 265                  | 3.94          |   |
| Taxable investment securities                                | 1,260,030       | 22,749               | 2.41          | 1,357,220       | 23,091               | 2.27          |   |
| Loans, net of unearned income (b)(c)                         | 4,509,628       | 130,522              | 3.87          | 4,331,807       | 130,899              | 4.04          |   |
| Total interest-earning assets                                | 5,808,025       | 154,272              | 3.55          | 5,702,138       | 154,263              | 3.62          |   |
| Noninterest-earning assets:                                  |                 |                      |               |                 |                      |               |   |
| Cash                                                         | 66,249          |                      |               | 71,589          |                      |               |   |
| Allowance for credit losses                                  | (49,617)        | )                    |               | (54,986)        | )                    |               |   |
| Other assets                                                 | 529,471         |                      |               | 541,368         |                      |               |   |
| Total noninterest-earning assets                             | 546,103         |                      |               | 557,971         |                      |               |   |
| Total Assets                                                 | \$6,354,128     |                      |               | \$6,260,109     |                      |               |   |
| <b>Liabilities and Shareholders' Equity</b>                  |                 |                      |               |                 |                      |               |   |
| Interest-bearing liabilities:                                |                 |                      |               |                 |                      |               |   |
| Interest-bearing demand deposits (d)                         | \$653,737       | \$172                | 0.04          | %\$636,551      | \$150                | 0.03          | % |
| Savings deposits (d)                                         | 1,857,077       | 1,872                | 0.13          | 1,875,064       | 1,745                | 0.12          |   |
| Time deposits                                                | 714,005         | 3,743                | 0.70          | 1,065,458       | 8,002                | 1.00          |   |
| Short-term borrowings                                        | 1,193,122       | 3,353                | 0.38          | 749,269         | 1,608                | 0.29          |   |
| Long-term debt                                               | 126,896         | 2,369                | 2.50          | 208,818         | 2,729                | 1.75          |   |
| Total interest-bearing liabilities                           | 4,544,837       | 11,509               | 0.34          | 4,535,160       | 14,234               | 0.42          |   |
| Noninterest-bearing liabilities and shareholders' equity:    |                 |                      |               |                 |                      |               |   |
| Noninterest-bearing demand deposits (d)                      | 1,038,016       |                      |               | 953,946         |                      |               |   |
| Other liabilities                                            | 55,075          |                      |               | 52,001          |                      |               |   |
| Shareholders' equity                                         | 716,200         |                      |               | 719,002         |                      |               |   |
| Total Noninterest-Bearing Funding Sources                    | 1,809,291       |                      |               | 1,724,949       |                      |               |   |
| Total Liabilities and Shareholders' Equity                   | \$6,354,128     |                      |               | \$6,260,109     |                      |               |   |
| Net Interest Income and Net Yield on Interest-Earning Assets |                 | \$142,763            | 3.29          | %               | \$140,029            | 3.28          | % |

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.

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

(c) Loan income includes loan fees earned.

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



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

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the nine months ended September 30, 2015 compared with September 30, 2014:

|                                      | Analysis of Year-to-Year Changes in Net Interest Income |               |               |
|--------------------------------------|---------------------------------------------------------|---------------|---------------|
|                                      | Total                                                   | Change Due To | Change Due To |
|                                      | Change                                                  | Volume        | Rate (a)      |
|                                      | (dollars in thousands)                                  |               |               |
| Interest-earning assets:             |                                                         |               |               |
| Interest-bearing deposits with banks | \$(1                                                    | ) \$—         | \$(1          |
| Tax-free investment securities       | 729                                                     | 748           | (19           |
| Taxable investment securities        | (342                                                    | ) (1,650      | ) 1,308       |
| Loans                                | (377                                                    | ) 5,373       | (5,750        |
| Total interest income (b)            | 9                                                       | 4,471         | (4,462        |
| Interest-bearing liabilities:        |                                                         |               |               |
| Interest-bearing demand deposits     | 22                                                      | 4             | 18            |
| Savings deposits                     | 127                                                     | (16           | ) 143         |
| Time deposits                        | (4,259                                                  | ) (2,629      | ) (1,630      |
| Short-term borrowings                | 1,745                                                   | 963           | 782           |
| Long-term debt                       | (360                                                    | ) (1,072      | ) 712         |
| Total interest expense               | (2,725                                                  | ) (2,750      | ) 25          |
| Net interest income                  | \$2,734                                                 | \$7,221       | \$(4,487      |

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

(b) Changes in interest income have been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.

#### Provision for Credit Losses

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

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

|                                               | 2015                   |            | 2014      |            |   |
|-----------------------------------------------|------------------------|------------|-----------|------------|---|
|                                               | Dollars                | Percentage | Dollars   | Percentage |   |
|                                               | (dollars in thousands) |            |           |            |   |
| Commercial, financial, agricultural and other | \$5,230                | 59         | % \$4,773 | 55         | % |
| Real estate construction                      | (554                   | ) (6       | ) 1,331   | 16         |   |
| Residential real estate                       | (54                    | ) (1       | ) (407    | ) (5       | ) |
| Commercial real estate                        | 1,584                  | 18         | 1,453     | 17         |   |
| Loans to individuals                          | 2,612                  | 30         | 1,471     | 17         |   |
| Total                                         | \$8,818                | 100        | % \$8,621 | 100        | % |

The provision for credit losses for the nine months ended September 30, 2015 increased in comparison to the nine months ended September 30, 2014 by \$0.2 million, or 2%. The majority of the 2015 provision expense is attributable

to commercial, financial, agricultural and other loans resulting from an increase in historical loss factors as well as specific reserves established for three loans, partially offset by the release of \$1.1 million in specific reserves for loans transferred to held for sale in the first quarter of 2015. These held for sale loans were sold during the third quarter of 2015, at which time a gain of \$0.4 million was recognized. Provision expense for commercial real estate loans was impacted by charge-offs and increases in qualitative factors including those associated with vacancy and rents. The provision for loans to individuals is primarily due to charge-offs in the indirect automobile portfolio. Real estate construction and residential real estate reflect a negative provision expense due to a decline in historical loss factors for these categories.

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

The majority of the 2014 provision expense is attributable to specific reserves for one oil and gas servicing company which was transferred to nonaccrual status in the first quarter of 2014 and sold during the second quarter of 2014. The allowance for credit losses was \$48.5 million, or 1.06%, of total loans outstanding at September 30, 2015, compared to \$52.1 million, or 1.17%, at December 31, 2014 and \$50.8 million, or 1.15%, at September 30, 2014. The change compared to December 31, 2014, can be attributed to a \$3.2 million, or 2%, decrease in criticized loans, which includes a reduction of \$14.4 million, or 26%, in nonperforming loans as well as a \$5.2 million decrease in the level of specific reserves held on impaired loans. Nonperforming loans as a percentage of total loans decreased to 0.89% at September 30, 2015 from 1.24% at December 31, 2014 and 1.03% as of September 30, 2014. The allowance to nonperforming loan ratio was 118.84%, 94.21% and 112.21% as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively.

Below is an analysis of the consolidated allowance for credit losses for the nine months ended September 30, 2015 and 2014 and the year-ended December 31, 2014:

|                                               | September 30,<br>2015  | September 30,<br>2014 | December 31,<br>2014 |
|-----------------------------------------------|------------------------|-----------------------|----------------------|
|                                               | (dollars in thousands) |                       |                      |
| Balance, beginning of period                  | \$52,051               | \$54,225              | \$54,225             |
| Loans charged off:                            |                        |                       |                      |
| Commercial, financial, agricultural and other | 8,579                  | 8,357                 | 8,911                |
| Real estate construction                      | —                      | 296                   | 296                  |
| Residential real estate                       | 1,351                  | 2,286                 | 3,153                |
| Commercial real estate                        | 1,249                  | 1,109                 | 1,148                |
| Loans to individuals                          | 3,283                  | 2,581                 | 3,964                |
| Total loans charged off                       | 14,462                 | 14,629                | 17,472               |
| Recoveries of loans previously charged off:   |                        |                       |                      |
| Commercial, financial, agricultural and other | 922                    | 625                   | 734                  |
| Real estate construction                      | 84                     | 469                   | 1,340                |
| Residential real estate                       | 417                    | 420                   | 650                  |
| Commercial real estate                        | 186                    | 432                   | 612                  |
| Loans to individuals                          | 502                    | 621                   | 766                  |
| Total recoveries                              | 2,111                  | 2,567                 | 4,102                |
| Net credit losses                             | 12,351                 | 12,062                | 13,370               |
| Provision charged to expense                  | 8,818                  | 8,621                 | 11,196               |
| Balance, end of period                        | \$48,518               | \$50,784              | \$52,051             |

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

Noninterest Income

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

|                                             | 2015                   | 2014     | \$ Change | % Change |
|---------------------------------------------|------------------------|----------|-----------|----------|
|                                             | (dollars in thousands) |          |           |          |
| Noninterest Income:                         |                        |          |           |          |
| Trust income                                | \$4,511                | \$4,587  | \$(76)    | (2)%     |
| Service charges on deposit accounts         | 11,271                 | 12,032   | (761)     | (6)      |
| Insurance and retail brokerage commissions  | 6,536                  | 4,704    | 1,832     | 39       |
| Income from bank owned life insurance       | 4,089                  | 4,131    | (42)      | (1)      |
| Card related interchange income             | 10,784                 | 10,620   | 164       | 2        |
| Other income                                | 5,863                  | 6,185    | (322)     | (5)      |
| Subtotal                                    | 43,054                 | 42,259   | 795       | 2        |
| Net securities gains                        | 125                    | 50       | 75        | 150      |
| Gain on sale of loans                       | 2,262                  | 143      | 2,119     | 1,482    |
| Gain on sale of other assets                | 1,022                  | 4,345    | (3,323)   | (76)     |
| Derivatives mark to market (expense) income | (420)                  | 175      | (595)     | (340)    |
| Total noninterest income                    | \$46,043               | \$46,972 | \$(929)   | (2)%     |

Noninterest income, excluding net securities gains, gain on sale of loans and other assets and the derivative mark to market, increased \$0.8 million, or 2%, for the first nine months of 2015 compared to 2014. Insurance and retail brokerage commissions increased \$1.8 million as a result of increased production and an agency acquisition in the fourth quarter of 2014. Offsetting that increase is a \$0.8 million decrease in service charges on deposit accounts and a \$0.3 million decrease in the other income category. The decrease in service charge on deposits is a result of lower overdraft fees, and the decline in other income can be attributed to \$0.3 million in revenue recognized in 2014 from our registered investment advisory business, which was sold in the first quarter of 2014.

Total noninterest income for the nine months ended September 30, 2015 decreased \$0.9 million in comparison to the nine months ended September 30, 2014. The most significant change includes a \$3.3 million decrease in gain on sale of other assets as a result of a \$1.2 million gain recognized in 2014 from the sale of the Company's registered investment advisory business and the sale of three OREO properties that resulted in gains of \$2.4 million.

Additionally, the quarterly fair value adjustment on derivatives resulted in a \$0.6 million decrease in income as a result of changes in corporate bond spreads and swap rates during the nine month period. Offsetting these decreases is a \$2.1 million increase in the gain on sale of loans primarily due to the Company reentering the secondary mortgage market.



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

Noninterest Expense

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

|                                                            | 2015                   | 2014      | \$ Change | % Change |    |
|------------------------------------------------------------|------------------------|-----------|-----------|----------|----|
|                                                            | (dollars in thousands) |           |           |          |    |
| Noninterest Expense:                                       |                        |           |           |          |    |
| Salaries and employee benefits                             | \$66,339               | \$65,185  | \$1,154   | 2        | %  |
| Net occupancy expense                                      | 10,518                 | 9,969     | 549       | 6        |    |
| Furniture and equipment expense - excluding IT conversion  | 7,980                  | 9,473     | (1,493)   | (16)     | )  |
| Data processing expense                                    | 4,505                  | 4,593     | (88)      | (2)      | )  |
| Advertising and promotion expense                          | 1,946                  | 2,346     | (400)     | (17)     | )  |
| Pennsylvania shares tax expense                            | 3,617                  | 2,782     | 835       | 30       |    |
| Intangible amortization                                    | 469                    | 530       | (61)      | (12)     | )  |
| Collection and repossession expense                        | 2,229                  | 1,941     | 288       | 15       |    |
| Other professional fees and services                       | 2,882                  | 2,777     | 105       | 4        |    |
| FDIC insurance                                             | 3,047                  | 3,026     | 21        | 1        |    |
| Other operating expenses                                   | 13,539                 | 13,008    | 531       | 4        |    |
| Subtotal                                                   | 117,071                | 115,630   | 1,441     | 1        |    |
| Loss on sale or write-down of assets                       | 2,037                  | 1,241     | 796       | 64       |    |
| Furniture and equipment expense - related to IT conversion | —                      | 5,577     | (5,577)   | (100)    | )% |
| Conversion related expenses                                | —                      | 1,676     | (1,676)   | (100)    | )% |
| Operational losses (recoveries)                            | 1,637                  | (273)     | ) 1,910   | 700      | %  |
| Total noninterest expense                                  | \$120,745              | \$123,851 | \$(3,106) | (3)      | )% |

Noninterest expense, excluding loss on sale or write-down of assets, furniture and equipment expense related to IT conversion, conversion related expenses and operational losses (recoveries), increased \$1.4 million, or 1%, for the nine months ended September 30, 2015 compared to the same period in 2014. Contributing to the 2015 increases are \$1.2 million in salary and employee benefits expense due to strategic initiatives such as the launch of the mortgage initiative and the acquisition of an insurance agency as well as normal merit increases. Net occupancy increased \$0.5 million due to higher property taxes and building repairs, and collection and repossession expense increased \$0.3 million primarily due to costs related to one commercial relationship.

Pennsylvania shares tax expense increased \$0.8 million as the result of a \$0.7 million agreement reached for a disputed tax assessment. The dispute related to the capital treatment of minority interest in a non-controlled subsidiary for the years 2011, 2012 and 2013. Prior to the third quarter of 2015, the Company believed it would prevail on its appeal of the assessment based on the intention of the tax statute, which specifically excluded minority interests from the shares tax assessment base. However, during the third quarter of 2015, the Pennsylvania Commonwealth Court settled the first case related to this issue which set the precedent for all other appeals on this issue. As a result, the Company agreed to a similar settlement. There are no other tax years open for assessment of this minority interest issue.

Offsetting these increases is a \$1.5 million decrease in furniture and equipment expense due to declines in equipment and software maintenance costs as a result of the IT system conversion which was completed in the third quarter of 2014.

Loss on sale or write-down of assets for the nine months ended September 30, 2015 increased \$0.8 million as compared to the same period in 2014. The loss in 2015 includes \$1.1 million in write-downs on three OREO properties recognized as a result of updated appraisals as well as a \$0.4 million write-down due to the anticipated sale of a bank building. The sale of this building and closing of the related branch office is estimated to provide \$0.2 million in annual savings. The loss on sale or write-down of assets for the nine months ended September 30, 2014 included a \$0.7 million write-down on one OREO property.

Operational losses (recoveries) increased \$1.9 million for the nine months ended September 30, 2015. In the first nine months of 2015, operational losses are largely due to fraud losses recognized in conjunction with several merchant debit card breaches. The negative expense recognized in the nine months ended September 30, 2014 is a result of a \$0.9 million insurance recovery related to a fraud loss recognized in 2012.

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

During the third quarter of 2014, First Commonwealth completed a system conversion to the Jack Henry and Associates SilverLake System core processing software and outsourced certain data processing services that had previously been performed in-house. Expenses related to the conversion included accelerated depreciation for data processing hardware and software, early termination charges on previous contracts, and staffing and employment-related charges. During the nine months ended September 30, 2014, \$5.6 million in accelerated depreciation and \$1.7 million in other conversion related expenses were recognized.

#### Income Tax

The provision for income taxes increased \$1.3 million for the nine months ended September 30, 2015, compared to the corresponding period in 2014. The higher provision for income taxes was the result of a \$4.7 million increase in the level of income before taxes.

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income, for the nine months ended September 30, 2015 and 2014.

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank-owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduced our tax rate below the 35% statutory rate produced an annual effective tax rate of 29.3% and 29.4% for the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, our deferred tax assets totaled \$32.0 million. Based on our evaluation as of September 30, 2015, we determined that it is more likely than not that all of these assets will be realized. As a result, a valuation allowance against these assets was not needed. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

#### Net Income

For the three months ended September 30, 2015, First Commonwealth had net income of \$12.4 million, or \$0.14 per share, compared to net income of \$12.5 million, or \$0.13 per share, in the three months ended September 30, 2014. For the three months ended September 30, 2015, the Company's return on average equity was 6.86% and its return on average assets was 0.78%, compared to 6.91% and 0.78%, respectively, for the three months ended September 30, 2014. The decrease in net income was primarily the result of an increase in the provision for credit losses offset by declines in noninterest expense and an increase in noninterest income.

#### Net Interest Income

Net interest income, on a fully taxable equivalent basis, was \$47.6 million in the third quarter of 2015, compared to \$47.4 million for the same period in 2014. This increase was primarily due a growth in interest-earning assets and a decline in the cost of interest-bearing liabilities. The net interest margin, on a fully taxable equivalent basis, was 3.25% and 3.26% for the three months ended September 30, 2015 and September 30, 2014, respectively.

The taxable equivalent yield on interest-earning assets was 3.52% for the three months ended September 30, 2015, a decrease of 5 basis points compared to the 3.57% yield for the same period in 2014. Growth in earning assets has helped to offset the spread compression, as average interest-earning assets for the three months ended September 30, 2015 increased \$27.7 million, or 0.5%, compared to the comparable period in 2014. Average loans increased \$162.8 million, or 3.7%, comparing the three months ended September 30, 2015 to the same period in 2014. Investment

portfolio purchases during the three months ended September 30, 2015 have been primarily in mortgage-related assets with approximate durations of 48-60 months and municipal securities with a duration of five years. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities as interest rates rise.

Reductions in the cost of interest-bearing liabilities offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.34% for the three months ended September 30, 2015, compared to 0.39% for the same period

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

in 2014. This decline can be attributed to a 35 basis point decrease in the cost of time deposits, as maturities were repriced lower or replaced with lower cost short-term borrowings.

For the three months ended September 30, 2015, changes in interest rates negatively impacted net interest income by \$1.7 million when compared with the same period in 2014. The lower yield on interest-earning assets adversely impacted net interest income by \$1.5 million, while increases in the cost of short-term borrowings and long term debt resulted in a negative impact of \$0.7 million.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets offset the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by \$1.9 million in the three months ended September 30, 2015, as compared to the same period in 2014. Higher levels of interest-earning assets resulted in an increase of \$1.0 million in interest income, while volume changes decreased interest expense by \$0.9 million, primarily as the result of changes in time deposits, including brokered deposits, and long-term debt.

Net interest income also benefited from a \$79.8 million increase in average net free funds at September 30, 2015 as compared to September 30, 2014. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders' equity over noninterest-earning assets. The largest component of the increase in net free funds was an increase of \$69.5 million, or 7.0%, in noninterest-bearing demand deposit average balances. Additionally, higher cost time deposits continue to mature and reprice into lower cost deposits or other funding alternatives. Average time deposits for the three months ended September 30, 2015 decreased by \$295.0 million compared to the comparable period in 2014.

The following table reconciles interest income in the Condensed Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the three months ended September 30:

|                                                                              | 2015                   | 2014      |
|------------------------------------------------------------------------------|------------------------|-----------|
|                                                                              | (dollars in thousands) |           |
| Interest income per Condensed Consolidated Statements of Income              | \$ 50,501              | \$ 51,089 |
| Adjustment to fully taxable equivalent basis                                 | 883                    | 811       |
| Interest income adjusted to fully taxable equivalent basis<br>(non-GAAP)     | 51,384                 | 51,900    |
| Interest expense                                                             | 3,816                  | 4,536     |
| Net interest income adjusted to fully taxable equivalent basis<br>(non-GAAP) | \$ 47,568              | \$ 47,364 |

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

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

|                                                              | 2015                   |                         |                     | 2014               |                         |                     |   |
|--------------------------------------------------------------|------------------------|-------------------------|---------------------|--------------------|-------------------------|---------------------|---|
|                                                              | Average<br>Balance     | Income /<br>Expense (a) | Yield<br>or<br>Rate | Average<br>Balance | Income /<br>Expense (a) | Yield<br>or<br>Rate |   |
|                                                              | (dollars in thousands) |                         |                     |                    |                         |                     |   |
| <b>Assets</b>                                                |                        |                         |                     |                    |                         |                     |   |
| Interest-earning assets:                                     |                        |                         |                     |                    |                         |                     |   |
| Interest-bearing deposits with banks                         | \$3,221                | \$2                     | 0.25                | %\$4,758           | \$4                     | 0.33                | % |
| Tax-free investment securities                               | 41,671                 | 401                     | 3.82                | 16,233             | 160                     | 3.91                |   |
| Taxable investment securities                                | 1,203,603              | 7,155                   | 2.36                | 1,362,563          | 7,781                   | 2.27                |   |
| Loans, net of unearned income (b)(c)                         | 4,550,882              | 43,826                  | 3.82                | 4,388,130          | 43,955                  | 3.97                |   |
| Total interest-earning assets                                | 5,799,377              | 51,384                  | 3.52                | 5,771,684          | 51,900                  | 3.57                |   |
| Noninterest-earning assets:                                  |                        |                         |                     |                    |                         |                     |   |
| Cash                                                         | 66,685                 |                         |                     | 71,391             |                         |                     |   |
| Allowance for credit losses                                  | (47,152)               | )                       |                     | (52,522)           | )                       |                     |   |
| Other assets                                                 | 524,099                |                         |                     | 534,515            |                         |                     |   |
| Total noninterest-earning assets                             | 543,632                |                         |                     | 553,384            |                         |                     |   |
| Total Assets                                                 | \$6,343,009            |                         |                     | \$6,325,068        |                         |                     |   |
| <b>Liabilities and Shareholders' Equity</b>                  |                        |                         |                     |                    |                         |                     |   |
| Interest-bearing liabilities:                                |                        |                         |                     |                    |                         |                     |   |
| Interest-bearing demand deposits (d)                         | \$656,008              | \$66                    | 0.04                | %\$633,213         | \$49                    | 0.03                | % |
| Savings deposits (d)                                         | 1,848,508              | 647                     | 0.14                | 1,832,914          | 578                     | 0.13                |   |
| Time deposits                                                | 659,445                | 1,044                   | 0.63                | 954,474            | 2,347                   | 0.98                |   |
| Short-term borrowings                                        | 1,232,795              | 1,279                   | 0.41                | 940,156            | 662                     | 0.28                |   |
| Long-term debt                                               | 111,285                | 780                     | 2.78                | 199,435            | 900                     | 1.79                |   |
| Total interest-bearing liabilities                           | 4,508,041              | 3,816                   | 0.34                | 4,560,192          | 4,536                   | 0.39                |   |
| Noninterest-bearing liabilities and shareholders' equity:    |                        |                         |                     |                    |                         |                     |   |
| Noninterest-bearing demand deposits (d)                      | 1,065,204              |                         |                     | 995,690            |                         |                     |   |
| Other liabilities                                            | 51,586                 |                         |                     | 51,327             |                         |                     |   |
| Shareholders' equity                                         | 718,178                |                         |                     | 717,859            |                         |                     |   |
| Total noninterest-bearing funding sources                    | 1,834,968              |                         |                     | 1,764,876          |                         |                     |   |
| Total Liabilities and Shareholders' Equity                   | \$6,343,009            |                         |                     | \$6,325,068        |                         |                     |   |
| Net Interest Income and Net Yield on Interest-Earning Assets |                        | \$47,568                | 3.25                | %                  | \$47,364                | 3.26                | % |

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.

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

(c) Loan income includes loan fees earned.

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



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

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three months ended September 30, 2015 compared with September 30, 2014:

|                                      | Analysis of Year-to-Year Changes in Net Interest Income |                      |                        |
|--------------------------------------|---------------------------------------------------------|----------------------|------------------------|
|                                      | Total Change<br>(dollars in thousands)                  | Change Due To Volume | Change Due To Rate (a) |
| Interest-earning assets:             |                                                         |                      |                        |
| Interest-bearing deposits with banks | \$(2                                                    | ) \$(1               | ) \$(1                 |
| Tax-free investment securities       | 241                                                     | 251                  | (10                    |
| Taxable investment securities        | (626                                                    | ) (910               | ) 284                  |
| Loans                                | (129                                                    | ) 1,629              | (1,758                 |
| Total interest income (b)            | (516                                                    | ) 969                | (1,485                 |
| Interest-bearing liabilities:        |                                                         |                      |                        |
| Interest-bearing demand deposits     | 17                                                      | 2                    | 15                     |
| Savings deposits                     | 69                                                      | 5                    | 64                     |
| Time deposits                        | (1,303                                                  | ) (729               | ) (574                 |
| Short-term borrowings                | 617                                                     | 207                  | 410                    |
| Long-term debt                       | (120                                                    | ) (398               | ) 278                  |
| Total interest expense               | (720                                                    | ) (913               | ) 193                  |
| Net interest income                  | \$204                                                   | \$1,882              | \$(1,678               |

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

(b) Changes in interest income have been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.

#### Provision for Credit Losses

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

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

|                                               | 2015                              |            | 2014       |            |
|-----------------------------------------------|-----------------------------------|------------|------------|------------|
|                                               | Dollars<br>(dollars in thousands) | Percentage | Dollars    | Percentage |
| Commercial, financial, agricultural and other | \$3,520                           | 76         | % \$(1,958 | ) (94      |
| Real estate construction                      | 75                                | 2          | 2,073      | 100        |
| Residential real estate                       | (124                              | ) (3       | ) (217     | ) (11      |
| Commercial real estate                        | 703                               | 15         | 1,528      | 74         |
| Loans to individuals                          | 447                               | 10         | 647        | 31         |
| Total                                         | \$4,621                           | 100        | % \$2,073  | 100        |



The provision for credit losses for the three months ended September 30, 2015 increased in comparison to the three months ended September 30, 2014 by \$2.5 million, or 123%. The majority of the 2015 provision expense is attributable to commercial, financial, agricultural and other loans because of a \$2.5 million increase in specific reserves for two impaired loans. Increases in the commercial real estate and loans to individual categories are the result of charge-offs during the quarter, while the negative provision for residential real estate can be attributed to declines in qualitative factors, including those associated with inflation and wages.

The majority of the 2014 provision expense is attributable to loan growth in the real estate construction and commercial real estate categories, as well as increases in qualitative factors such as those associated with vacancy, capitalization rates and absorption.

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

Below is an analysis of the consolidated allowance for credit losses for three months ended September 30, 2015 and 2014 and the year-ended December 31, 2014:

|                                               | September 30,<br>2015  | September 30,<br>2014 | December 31,<br>2014 |
|-----------------------------------------------|------------------------|-----------------------|----------------------|
|                                               | (dollars in thousands) |                       |                      |
| Balance, beginning of period                  | \$45,344               | \$50,725              | \$54,225             |
| Loans charged off:                            |                        |                       |                      |
| Commercial, financial, agricultural and other | 639                    | 498                   | 8,911                |
| Real estate construction                      | —                      | —                     | 296                  |
| Residential real estate                       | 301                    | 551                   | 3,153                |
| Commercial real estate                        | 561                    | 812                   | 1,148                |
| Loans to individuals                          | 900                    | 1,019                 | 3,964                |
| Total loans charged off                       | 2,401                  | 2,880                 | 17,472               |
| Recoveries of loans previously charged off:   |                        |                       |                      |
| Commercial, financial, agricultural and other | 564                    | 204                   | 734                  |
| Real estate construction                      | —                      | 132                   | 1,340                |
| Residential real estate                       | 178                    | 97                    | 650                  |
| Commercial real estate                        | 33                     | 177                   | 612                  |
| Loans to individuals                          | 179                    | 256                   | 766                  |
| Total recoveries                              | 954                    | 866                   | 4,102                |
| Net credit losses                             | 1,447                  | 2,014                 | 13,370               |
| Provision charged to expense                  | 4,621                  | 2,073                 | 11,196               |
| Balance, end of period                        | \$48,518               | \$50,784              | \$52,051             |

Noninterest Income

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

|                                            | 2015                   | 2014     | \$ Change | % Change |
|--------------------------------------------|------------------------|----------|-----------|----------|
|                                            | (dollars in thousands) |          |           |          |
| Noninterest Income:                        |                        |          |           |          |
| Trust income                               | \$1,614                | \$1,678  | \$(64)    | (4)%     |
| Service charges on deposit accounts        | 4,081                  | 4,099    | (18)      | —        |
| Insurance and retail brokerage commissions | 2,163                  | 1,709    | 454       | 27       |
| Income from bank owned life insurance      | 1,357                  | 1,330    | 27        | 2        |
| Card related interchange income            | 3,637                  | 3,599    | 38        | 1        |
| Other income                               | 1,796                  | 1,953    | (157)     | (8)      |
| Subtotal                                   | 14,648                 | 14,368   | 280       | 2        |
| Net securities gains                       | —                      | 48       | (48)      | (100)    |
| Gain on sale of loans                      | 1,196                  | 67       | 1,129     | 1,685    |
| Gain on sale of other assets               | 444                    | 675      | (231)     | (34)     |
| Derivatives mark to market expense         | (783)                  | (108)    | (675)     | 625      |
| Total noninterest income                   | \$15,505               | \$15,050 | \$455     | 3%       |

Noninterest income, excluding net securities gains, gain on sale of loans and other assets and derivative mark to market expense, increased \$0.3 million, or 2%, for the third quarter of 2015 compared to 2014. Insurance and retail brokerage commissions increased \$0.5 million as a result of increased production and an agency acquisition in the

fourth quarter of 2014. Offsetting that increase is a \$0.2 million decrease in other income.

Total noninterest income for the three months ended September 30, 2015 increased \$0.5 million in comparison to the three months ended September 30, 2014. The most significant change includes a \$1.1 million increase in gains on the sale of loans due primarily to the Company reentering the secondary mortgage market. This increase was offset by a \$0.7 million decrease in

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

income as a result of the quarterly fair value adjustment on derivatives due to changes in corporate bond spreads and swap rates during the third quarter.

Noninterest Expense

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

|                                                            | 2015                   | 2014     | \$ Change | % Change |    |
|------------------------------------------------------------|------------------------|----------|-----------|----------|----|
|                                                            | (dollars in thousands) |          |           |          |    |
| Noninterest Expense:                                       |                        |          |           |          |    |
| Salaries and employee benefits                             | \$22,446               | \$22,244 | \$202     | 1        | %  |
| Net occupancy expense                                      | 3,291                  | 3,180    | 111       | 3        |    |
| Furniture and equipment expense                            | 2,670                  | 3,046    | (376)     | (12)     | )  |
| Data processing expense                                    | 1,558                  | 1,583    | (25)      | (2)      | )  |
| Advertising and promotion expense                          | 789                    | 861      | (72)      | (8)      | )  |
| Pennsylvania shares tax expense                            | 1,713                  | 1,033    | 680       | 66       |    |
| Intangible amortization                                    | 157                    | 174      | (17)      | (10)     | )  |
| Collection and repossession expense                        | 801                    | 783      | 18        | 2        |    |
| Other professional fees and services                       | 1,007                  | 1,050    | (43)      | (4)      | )  |
| FDIC insurance                                             | 963                    | 926      | 37        | 4        |    |
| Other operating expenses                                   | 4,408                  | 4,232    | 176       | 4        |    |
| Subtotal                                                   | 39,803                 | 39,112   | 691       | 2        |    |
| Loss on sale or write-down of assets                       | 140                    | 61       | 79        | 130      |    |
| Furniture and equipment expense - related to IT conversion | —                      | 1,425    | (1,425)   | (100)    | )  |
| Conversion related expenses                                | —                      | 783      | (783)     | (100)    | )  |
| Operational losses (recoveries)                            | 314                    | 187      | 127       | 68       |    |
| Total noninterest expense                                  | \$40,257               | \$41,568 | \$(1,311) | (3)      | )% |

Noninterest expense, excluding loss on sale or write-down of assets, furniture and equipment expense related to IT conversion, conversion related expenses and operational losses (recoveries), increased \$0.7 million for the three months ended September 30, 2015 compared to the same period in 2014. The primary reason for this increase is the \$0.7 million increase in Pennsylvania shares tax expense as a result of the settlement of the previously discussed tax dispute. Offsetting this increase is a decrease of \$0.4 million in furniture and equipment expense due to lower maintenance costs resulting from the IT system conversion completed in the third quarter of 2014.

During the third quarter of 2014, First Commonwealth completed a system conversion to the Jack Henry and Associates SilverLake System core processing software and outsourced certain data processing services that had previously been performed in-house. Expenses related to the conversion included accelerated depreciation for data processing hardware and software, early termination charges on previous contracts, and staffing and employment-related charges. During the three months ended September 30, 2014, \$1.4 million in accelerated depreciation and \$0.8 million in other conversion related expenses were recognized.

Income Tax

The provision for income taxes decreased \$0.6 million for the three months ended September 30, 2015, compared to the corresponding period in 2014. The lower provision for income taxes was the result of a \$0.7 million decrease in the level of income before taxes and an increase in the level of tax-exempt income.

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income, for the three months ended September 30, 2015 and 2014.

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank-owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduced our tax rate below the 35% statutory rate produced an annual effective tax rate of 28.3% and 30.4% for the three months ended September 30, 2015 and 2014, respectively.

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

### Liquidity

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets, including investments. During the first nine months of 2015, liquidity provided from the net increase in short-term borrowings totaled \$223.9 million, while the maturity and redemption of investment securities provided \$290.8 million. This liquidity provided funds needed to originate loans, purchase investment securities and fund depositor withdrawals. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank of Cleveland ("FRB") and access to certificates of deposit through brokers.

In order to increase and diversify our funding sources, we participate in the Certificate of Deposit Account Registry Services ("CDARS") program as part of an Asset/Liability Committee ("ALCO") strategy to increase and diversify funding sources. As of September 30, 2015, our maximum borrowing capacity under this program was \$955.6 million and as of that date there was \$3.6 million outstanding. Also included in this amount is a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of September 30, 2015, our outstanding certificates of deposits from this program have an average weighted rate of 0.26% and an average original term of 138 days.

An additional source of liquidity is the FRB Borrower-in-Custody of Collateral program, which enables us to pledge certain loans that are not being used as collateral at the FHLB as collateral for borrowings at the FRB. At September 30, 2015, the borrowing capacity under this program totaled \$665.6 million and there were no amounts outstanding.

As of September 30, 2015, our maximum borrowing capacity at the FHLB of Pittsburgh was \$1.6 billion and as of that date amounts used against this capacity included \$1.2 billion in outstanding borrowings and \$24.5 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

We also have available unused federal funds lines with four correspondent banks. These lines have an aggregate commitment of \$170.0 million with \$20.0 million outstanding as of September 30, 2015.

First Commonwealth Financial Corporation has an unsecured \$15.0 million line of credit with another financial institution. As of September 30, 2015, there are no amounts outstanding on this line.

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

|                                     | September 30, 2015     | December 31, 2014 |
|-------------------------------------|------------------------|-------------------|
|                                     | (dollars in thousands) |                   |
| Noninterest-bearing demand deposits | \$1,077,234            | \$989,027         |
| Interest-bearing demand deposits    | 70,662                 | 81,851            |
| Savings deposits                    | 2,427,326              | 2,402,288         |
| Time deposits                       | 586,268                | 842,345           |
| Total                               | \$4,161,490            | \$4,315,511       |

During the first nine months of 2015, total deposits decreased \$154.0 million due to a \$256.1 million decrease in time deposits partially offset by increases of \$13.8 million in interest-bearing demand and savings deposits and \$88.2 million in noninterest-bearing deposits. The decrease in time deposits is due to a decline in wholesale certificates of deposit of \$146.3 million coupled with a decline in core certificates of deposit of \$109.7 million. Wholesale certificates can, at times, offer a more attractive source of incremental funding as they can, depending on market

conditions, have a lower incremental cost of funds than traditional certificate of deposit funding.

**Market Risk**

The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate-sensitive assets to rate-sensitive liabilities repricing within

52

---

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

a one-year period was 0.74 and 0.69 at September 30, 2015 and December 31, 2014, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months. The level of First Commonwealth's ratio is largely driven by the modeling of interest-bearing non-maturity deposits, which are included in the analysis as repricing within one year.

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

The following is the gap analysis as of September 30, 2015 and December 31, 2014:

|                                            | September 30, 2015     |             |              |                       |                             |              |   |
|--------------------------------------------|------------------------|-------------|--------------|-----------------------|-----------------------------|--------------|---|
|                                            | 0-90 Days              | 91-180 Days | 181-365 Days | Cumulative 0-365 Days | Over 1 Year Through 5 Years | Over 5 Years |   |
|                                            | (dollars in thousands) |             |              |                       |                             |              |   |
| Loans                                      | \$2,330,773            | \$170,888   | \$305,469    | \$2,807,130           | \$1,429,116                 | \$315,771    |   |
| Investments                                | 148,048                | 42,952      | 162,874      | 353,874               | 523,351                     | 371,076      |   |
| Other interest-earning assets              | 3,529                  | —           | —            | 3,529                 | —                           | —            |   |
| Total interest-sensitive assets (ISA)      | 2,482,350              | 213,840     | 468,343      | 3,164,533             | 1,952,467                   | 686,847      |   |
| Certificates of Deposit                    | 125,567                | 96,274      | 145,380      | 367,221               | 215,033                     | 4,014        |   |
| Other deposits                             | 2,497,989              | —           | —            | 2,497,989             | —                           | —            |   |
| Borrowings                                 | 1,431,700              | 139         | 282          | 1,432,121             | 2,463                       | 6,430        |   |
| Total interest-sensitive liabilities (ISL) | 4,055,256              | 96,413      | 145,662      | 4,297,331             | 217,496                     | 10,444       |   |
| Gap                                        | \$(1,572,906 )         | \$117,427   | \$322,681    | \$(1,132,798 )        | \$1,734,971                 | \$676,403    |   |
| ISA/ISL                                    | 0.61                   | 2.22        | 3.22         | 0.74                  | 8.98                        | 65.76        |   |
| Gap/Total assets                           | 24.64                  | % 1.84      | % 5.05       | % 17.74               | % 27.17                     | % 10.59      | % |

|                                       | December 31, 2014      |             |              |                       |                             |              |
|---------------------------------------|------------------------|-------------|--------------|-----------------------|-----------------------------|--------------|
|                                       | 0-90 Days              | 91-180 Days | 181-365 Days | Cumulative 0-365 Days | Over 1 Year Through 5 Years | Over 5 Years |
|                                       | (dollars in thousands) |             |              |                       |                             |              |
| Loans                                 | \$2,274,687            | \$166,818   | \$294,772    | \$2,736,277           | \$1,412,835                 | \$267,876    |
| Investments                           | 52,057                 | 60,708      | 125,801      | 238,566               | 767,521                     | 338,182      |
| Other interest-earning assets         | 2,262                  | —           | —            | 2,262                 | —                           | —            |
| Total interest-sensitive assets (ISA) | 2,329,006              | 227,526     | 420,573      | 2,977,105             | 2,180,356                   | 606,058      |



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

|                                            |                |          |           |                |             |           |   |
|--------------------------------------------|----------------|----------|-----------|----------------|-------------|-----------|---|
| Certificates of Deposit                    | 278,659        | 114,932  | 193,346   | 586,937        | 251,153     | 4,255     |   |
| Other deposits                             | 2,484,139      | —        | —         | 2,484,139      | —           | —         |   |
| Borrowings                                 | 1,203,176      | 25,135   | 29,873    | 1,258,184      | 2,385       | 6,931     |   |
| Total interest-sensitive liabilities (ISL) | 3,965,974      | 140,067  | 223,219   | 4,329,260      | 253,538     | 11,186    |   |
| Gap                                        | \$(1,636,968 ) | \$87,459 | \$197,354 | \$(1,352,155 ) | \$1,926,818 | \$594,872 |   |
| ISA/ISL                                    | 0.59           | 1.62     | 1.88      | 0.69           | 8.60        | 54.18     |   |
| Gap/Total assets                           | 25.74          | % 1.38   | % 3.10    | % 21.26        | % 30.29     | % 9.35    | % |

53

---

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

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

|                         | Net interest income change (12 months) |             |          |          |
|-------------------------|----------------------------------------|-------------|----------|----------|
|                         | -200                                   | -100        | +100     | +200     |
|                         | (dollars in thousands)                 |             |          |          |
| September 30, 2015 (\$) | \$(7,830 )                             | \$(3,408 )  | \$(387 ) | \$(324 ) |
| September 30, 2015 (%)  | (4.2 )%                                | (1.8 )%     | (0.2 )%  | (0.2 )%  |
| December 31, 2014 (\$)  | \$ (5,280 )                            | \$ (1,414 ) | \$ 211   | \$ 869   |
| December 31, 2014 (%)   | (2.9 )%                                | (0.8 )%     | 0.1 %    | 0.5 %    |

The following table represents the potential sensitivity of our annual net interest income to immediate changes in interest rates versus if rates remained unchanged utilizing a flat balance sheet.

|                         | Net interest income change (12 months) |             |          |          |
|-------------------------|----------------------------------------|-------------|----------|----------|
|                         | -200                                   | -100        | +100     | +200     |
|                         | (dollars in thousands)                 |             |          |          |
| September 30, 2015 (\$) | \$(13,027 )                            | \$(7,483 )  | \$ 1,487 | \$ 3,800 |
| September 30, 2015 (%)  | (7.0 )%                                | (4.0 )%     | 0.8 %    | 2.0 %    |
| December 31, 2014 (\$)  | \$ (11,925 )                           | \$ (6,532 ) | \$ 577   | \$ 1,511 |
| December 31, 2014 (%)   | (6.4 )%                                | (3.5 )%     | 0.3 %    | 0.8 %    |

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current low interest rate environment. Results of the 100 and 200 basis point interest rate decline scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1%, and therefore cannot decline 100 or 200 basis points, yet our interest-sensitive assets are able to decline by these amounts. In the nine months ended September 30, 2015 and 2014, the cost of our interest-bearing liabilities averaged 0.34% and 0.42%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.55% and 3.62%, respectively.

During the first quarter of 2015, the Company entered into cash flow interest rate swaps in which we extended the duration of \$100.0 million of the \$1.3 billion LIBOR based loans in our loan portfolio into fixed interest rates for a period of three or four years. These swaps add approximately two basis points of protection to the net interest margin as a hedge against a prolonged low-rate environment. A similar cash flow interest rate swap, with a notional amount of \$100.0 million, was entered into in 2014. Please refer to Note 11, "Derivatives," for additional information on interest rate swaps.

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

#### Credit Risk

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

First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual impaired loans with a balance greater than \$0.1 million, loss experience trends and other relevant factors.

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

First Commonwealth also maintains a reserve for unfunded loan commitments and letters of credit based upon credit risk and probability of funding. The reserve totaled \$3.8 million at September 30, 2015 and is classified in "Other liabilities" on the Condensed Consolidated Statements of Financial Condition.

First Commonwealth defines exposure to the Oil and Gas Industry as any borrower who is involved in exploration and production, and any company in the industry supply chain that generates 40% or more of their sales revenue from exploration and production companies.

As of September 30, 2015, the Company had a total of \$145.5 million in commitments to the Oil and Gas Industry, with \$69.6 million in outstanding loan balances against those commitments. Of this total, commitments of \$41.1 million with outstanding balances of \$13.2 million are for exploration and production, while \$104.4 million in commitments, with outstanding balances of \$56.4 million, are related to ancillary businesses.

Two customers account for 85.1% of the loans related to exploration and production and both are pass-rated credits. These credit facilities are primarily used to support letters of credit and have little or no usage. Two commercial relationships in this category, totaling \$3.4 million, are on non-performing status and have been even before the oil price decline in the third quarter of 2014.

The ancillary businesses sector consist of well services, transportation, and providing equipment and materials to support the oil and gas industry. Two customers, which account for 37.4% of the ancillary business exposure, are bulk transporters of refined product and are not expected to be negatively impacted from lower oil prices. There are four pass-rated credits, with total commitments of \$39.2 million, in the ancillary business sector that will see some impact from reduced drilling activity due to lower oil and gas prices. The Company will continue to monitor their performance accordingly. One commercial relationship with \$2.3 million in outstanding loans for an ancillary business has been on non-performing status since 2012.

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructurings. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources. In the first nine months of 2015, 37 loans totaling \$4.2 million were identified as troubled debt restructurings. The balance of troubled debt restructured loans, including held for sale loans, decreased \$8.9 million due primarily to a charge-off of \$3.3 million related to a loan relationship with a local energy company, the payoff of a \$1.4 million commercial industrial loan with a local lumber company and a \$1.2 million charge-off on a loan transferred to held for sale and \$2.4 million related to the subsequent sale of the loan. Please refer to Note 8, "Loans and Allowance for Credit Losses," for additional information on troubled debt restructurings.

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

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

Nonperforming loans, including loans held for sale, decreased \$14.4 million to \$40.8 million at September 30, 2015 compared to \$55.3 million at December 31, 2014. This decrease is primarily due to \$6.8 million in charge-offs on three commercial relationships, \$5.9 million in payments from two commercial relationships, \$2.4 million transferred to OREO and the sale of \$2.4 million in loans for one commercial relationship. Offsetting this decrease is the addition of a \$6.1 million commercial relationship with an industrial manufacturer.

The allowance for credit losses as a percentage of nonperforming loans was 118.84% as of September 30, 2015 compared to 94.21% at December 31, 2014 and 112.21% at September 30, 2014. The amount of specific reserves included in the allowance for nonperforming loans was determined by using fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific reserves of \$4.3 million and general reserves of \$44.3 million as of September 30, 2015. Specific reserves decreased \$5.2 million from December 31, 2014, and \$0.4 million from September 30, 2014. The decrease in specific reserves in the first nine months of 2015 is primarily due to charge-offs of loans

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

which were provided for in prior periods. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at September 30, 2015.

Criticized loans totaled \$136.9 million at September 30, 2015 and represented 3.0% of the loan portfolio. The level of criticized loans decreased as of September 30, 2015 when compared to December 31, 2014, by \$3.2 million, or 2.3%. Classified loans totaled \$81.7 million at September 30, 2015 compared to \$67.8 million at December 31, 2014, an increase of \$14.0 million, or 20.6%. Delinquency on accruing loans for the same period decreased \$4.2 million, or 22.6%, the majority of which are commercial real estate and residential real estate loans.

The allowance for credit losses was \$48.5 million at September 30, 2015 or 1.06% of total loans outstanding compared to 1.17% reported at December 31, 2014 and 1.15% at September 30, 2014. General reserves, or the portion of the allowance related to loans which were not specifically evaluated for impairment, as a percentage of non-impaired loans were 0.98% at September 30, 2015 compared to 0.97% at December 31, 2014 and 1.06% at September 30, 2014.

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

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

|                                                                                | September 30,<br>2015  |       | 2014        |       | December 31,<br>2014 |       |
|--------------------------------------------------------------------------------|------------------------|-------|-------------|-------|----------------------|-------|
|                                                                                | (dollars in thousands) |       |             |       |                      |       |
| Nonperforming Loans:                                                           |                        |       |             |       |                      |       |
| Loans on nonaccrual basis                                                      | \$20,220               |       | \$27,310    |       | \$25,715             |       |
| Troubled debt restructured loans on nonaccrual basis                           | 8,583                  |       | 6,783       |       | 16,952               |       |
| Troubled debt restructured loans on accrual basis                              | 12,024                 |       | 11,164      |       | 12,584               |       |
| Total nonperforming loans                                                      | \$40,827               |       | \$45,257    |       | \$55,251             |       |
| Loans past due 30 to 90 days and still accruing                                | \$12,482               |       | \$15,778    |       | \$16,163             |       |
| Loans past due in excess of 90 days and still accruing                         | \$2,054                |       | \$2,374     |       | \$2,619              |       |
| Other real estate owned                                                        | \$10,542               |       | \$7,751     |       | \$7,197              |       |
| Loans held for sale at end of period                                           | \$4,986                |       | \$1,305     |       | \$2,502              |       |
| Loans outstanding at end of period                                             | \$4,575,735            |       | \$4,411,481 |       | \$4,457,308          |       |
| Average loans outstanding                                                      | \$4,509,628            | (a)   | \$4,331,807 | (a)   | \$4,356,566          | (b)   |
| Nonperforming loans as a percentage of total loans                             | 0.89                   | %     | 1.03        | %     | 1.24                 | %     |
| Provision for credit losses                                                    | \$8,818                | (a)   | \$8,621     | (a)   | \$11,196             | (b)   |
| Allowance for credit losses                                                    | \$48,518               |       | \$50,784    |       | \$52,051             |       |
| Net charge-offs                                                                | \$12,351               | (a)   | \$12,062    | (a)   | \$13,370             | (b)   |
| Net charge-offs as a percentage of average loans outstanding (annualized)      | 0.37                   | %     | 0.37        | %     | 0.31                 | %     |
| Provision for credit losses as a percentage of net charge-offs                 | 71.40                  | % (a) | 71.47       | % (a) | 83.74                | % (b) |
| Allowance for credit losses as a percentage of end-of-period loans outstanding | 1.06                   | %     | 1.15        | %     | 1.17                 | %     |
| Allowance for credit losses as a percentage of nonperforming loans (c)         | 118.84                 | %     | 112.21      | %     | 94.21                | %     |

(a) For the nine-month period ended.

(b) For the twelve-month period ended.

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

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

|                                               | September 30, 2015 |    | December 31, 2014 |    |   |
|-----------------------------------------------|--------------------|----|-------------------|----|---|
|                                               | Amount             | %  | Amount            | %  |   |
| (dollars in thousands)                        |                    |    |                   |    |   |
| Commercial, financial, agricultural and other | \$1,126,881        | 25 | % \$1,052,109     | 24 | % |
| Real estate construction                      | 179,710            | 4  | 120,785           | 3  |   |
| Residential real estate                       | 1,204,220          | 26 | 1,226,344         | 27 |   |
| Commercial real estate                        | 1,435,954          | 31 | 1,405,256         | 31 |   |

|                                               |             |     |               |     |   |
|-----------------------------------------------|-------------|-----|---------------|-----|---|
| Loans to individuals                          | 628,970     | 14  | 652,814       | 15  |   |
| Total loans and leases net of unearned income | \$4,575,735 | 100 | % \$4,457,308 | 100 | % |

During the nine months ended September 30, 2015, loans increased \$118.4 million, or 3%, compared to balances outstanding at December 31, 2014. All categories of loans reflected growth during the first nine months of 2015, except for residential real estate loans and loans to individuals. Declines in the loans to individuals category is primarily due to a decline in indirect auto loans. The decline in residential real estate loans is the result of continued runoff in our mortgage portfolio, as many of the loans originated by our mortgage banking area are sold in the secondary market.

Net charge-offs for the nine months ended September 30, 2015 totaled \$12.4 million compared to \$12.1 million for the nine months ended September 30, 2014. The most significant charge-offs during the nine months ended September 30, 2015 include a \$2.3 million partial charge-off of two commercial industrial loans related to a local energy company and a \$1.2 million



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

charge-off of a commercial relationship that was transferred to loans held for sale. During the nine months ended September 30, 2014, the most significant charge-offs included \$8.0 million recognized on two commercial loans and 16 consumer loan relationships.

|                                               | For the Nine Months Ended September 30, 2015 |                            |                                                      | As of September 30, 2015 |                                |                                           |   |  |
|-----------------------------------------------|----------------------------------------------|----------------------------|------------------------------------------------------|--------------------------|--------------------------------|-------------------------------------------|---|--|
|                                               | Net Charge-offs                              | % of Total Net Charge-offs | Net Charge-offs as a % of Average Loans (annualized) | Nonperforming Loans      | % of Total Nonperforming Loans | Nonperforming Loans as a % of Total Loans |   |  |
|                                               | (dollars in thousands)                       |                            |                                                      |                          |                                |                                           |   |  |
| Commercial, financial, agricultural and other | \$7,657                                      | 61.99                      | % 0.23                                               | % \$23,393               | 57.29                          | % 0.51                                    | % |  |
| Real estate construction                      | (84)                                         | ) (0.68                    | ) —                                                  | 31                       | 0.08                           | —                                         |   |  |
| Residential real estate                       | 934                                          | 7.56                       | 0.03                                                 | 10,142                   | 24.84                          | 0.22                                      |   |  |
| Commercial real estate                        | 1,063                                        | 8.61                       | 0.03                                                 | 6,965                    | 17.06                          | 0.15                                      |   |  |
| Loans to individuals                          | 2,781                                        | 22.52                      | 0.08                                                 | 296                      | 0.73                           | 0.01                                      |   |  |
| Total loans, net of unearned income           | \$12,351                                     | 100.00                     | % 0.37                                               | % \$40,827               | 100.00                         | % 0.89                                    | % |  |

As the above table illustrates, commercial, financial, agricultural and other, residential real estate and commercial real estate loans represented a significant portion of the nonperforming loans as of September 30, 2015. See discussions related to the provision for credit losses and loans for more information.

#### Capital Resources

At September 30, 2015, shareholders' equity was \$722.8 million, an increase of \$6.6 million from December 31, 2014. The increase was primarily the result of \$25.4 million of common stock repurchases and \$18.9 million of dividends paid to shareholders, offset by \$40.1 million in net income and increases of \$9.5 million in the fair value of available for sale investments. Cash dividends declared per common share were \$0.21 for the nine months ended September 30, 2015 and 2014.

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

First Commonwealth maintains capital to absorb unexpected losses. In order to provide assurance that our capital levels are adequate for our risk exposure we test our capital position under several stress scenarios on an annual basis. This analysis is subject to Board of Director review and approval. Our most recent capital stress test was completed in December 2014.

Effective January 1, 2015, the Company is subject to the new regulatory risk-based capital rules adopted by the federal banking agencies implementing Basel III. The most significant changes include higher minimum capital requirements, as the minimum Tier I capital ratio increased from 4.0% to 6.0% and the establishment of a new common equity Tier I capital ratio with a minimum level of 4.5%. Additionally, the new rules improve the quality of capital by providing stricter eligibility criteria for regulatory capital instruments and provide for a phase-in, beginning January 1, 2016, of a capital conservation buffer of 2.5% of risk-weighted assets. This buffer provides a requirement

to hold common equity Tier 1 capital above the minimum risk-based capital requirements, resulting in an effective common equity Tier I risk-weighted asset minimum ratio of 7% on a fully phased-in basis.

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

As of September 30, 2015, First Commonwealth and First Commonwealth Bank met all capital adequacy requirements to which they are subject and was considered well-capitalized under the regulatory rules all on a fully phased in basis. To be

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

considered well capitalized, the Company must maintain minimum Total risk-based capital, Tier I risk-based capital, Tier I leverage ratio and Common equity tier I as set forth in the table below:

|                                              | Actual         |        | Minimum Capital Required - Basel III Phase-In Schedule |       | Minimum Capital Required - Basel III Fully Phased-In |        | Required to be Considered Well Capitalized |        |
|----------------------------------------------|----------------|--------|--------------------------------------------------------|-------|------------------------------------------------------|--------|--------------------------------------------|--------|
|                                              | Capital Amount | Ratio  | Capital Amount                                         | Ratio | Capital Amount                                       | Ratio  | Capital Amount                             | Ratio  |
| (dollars in thousands)                       |                |        |                                                        |       |                                                      |        |                                            |        |
| Total Capital to Risk Weighted Assets        |                |        |                                                        |       |                                                      |        |                                            |        |
| First Commonwealth Financial Corporation     | \$678,234      | 12.46% | \$435,319                                              | 8.00% | \$571,357                                            | 10.50% | \$544,149                                  | 10.00% |
| First Commonwealth Bank                      | 650,874        | 11.96  | 435,539                                                | 8.00  | 571,645                                              | 10.50  | 544,424                                    | 10.00  |
| Tier I Capital to Risk Weighted Assets       |                |        |                                                        |       |                                                      |        |                                            |        |
| First Commonwealth Financial Corporation     | \$625,898      | 11.50% | \$326,490                                              | 6.00% | \$462,527                                            | 8.50%  | \$435,319                                  | 8.00%  |
| First Commonwealth Bank                      | 598,538        | 10.99  | 326,654                                                | 6.00  | 462,760                                              | 8.50   | 435,539                                    | 8.00   |
| Tier I Capital to Average Assets             |                |        |                                                        |       |                                                      |        |                                            |        |
| First Commonwealth Financial Corporation     | \$625,898      | 10.13% | \$247,244                                              | 4.00% | \$247,244                                            | 4.00%  | \$309,055                                  | 5.00%  |
| First Commonwealth Bank                      | 598,538        | 9.70   | 246,715                                                | 4.00  | 246,715                                              | 4.00   | 308,394                                    | 5.00   |
| Common Equity Tier I to Risk Weighted Assets |                |        |                                                        |       |                                                      |        |                                            |        |
| First Commonwealth Financial Corporation     | \$555,898      | 10.22% | \$244,867                                              | 4.50% | \$380,905                                            | 7.00%  | \$353,697                                  | 6.50%  |
| First Commonwealth Bank                      | 532,774        | 9.79   | 244,991                                                | 4.50  | 381,097                                              | 7.00   | 353,876                                    | 6.50   |

On January 27, 2015, First Commonwealth's Board of Directors authorized a \$25.0 million common stock repurchase program. As of September 30, 2015, First Commonwealth had repurchased 2,885,020 shares at an average price of \$8.70 per share under this program. This program was completed in May of 2015.

On October 28, 2015, First Commonwealth Financial Corporation declared a quarterly dividend of \$0.07 per share payable on November 20, 2015 to shareholders of record as of November 9, 2015. The timing and amount of future dividends are at the discretion of First Commonwealth's Board of Directors based upon, among other factors, capital levels, asset quality, liquidity and current and projected earnings.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

ITEM 4. Controls and Procedures

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

In addition, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal controls over financial reporting to determine whether any changes occurred during the current fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified in connection with this evaluation.

Table of Contents

PART II – OTHER INFORMATION

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. LEGAL PROCEEDINGS

First Commonwealth and certain of its subsidiaries have been named as defendants in various legal actions arising out of the normal course of business. In the opinion of management, the ultimate resolution of these lawsuits should not have a material adverse effect on First Commonwealth's business, consolidated financial position or results of operations. It is possible, however, that future developments could result in an unfavorable ultimate outcome for or resolution of any one or more of the lawsuits in which First Commonwealth or its subsidiaries are defendants, which may be material to First Commonwealth's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain, and management cannot make assurances that First Commonwealth will prevail in any of these actions, nor can management reasonably estimate the amount of damages that First Commonwealth might incur.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Table of Contents

PART II – OTHER INFORMATION

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

62

---

Table of Contents

PART II – OTHER INFORMATION

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

FIRST COMMONWEALTH FINANCIAL CORPORATION

(Registrant)

DATED: November 9, 2015

/s/ T. Michael Price  
T. Michael Price  
President and Chief Executive Officer

DATED: November 9, 2015

/s/ James R. Reske  
James R. Reske  
Executive Vice President and Chief Financial Officer