First Commonwealth®

NYSE: FCF

# Supplemental Financial Information

Third Quarter 2019

October 30, 2019

# Forward-looking statements

This presentation contains forward-looking statements about First Commonwealth's future plans, strategies and financial performance. These statements can be identified by the fact that they do not relate strictly to historical or current facts and often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may." Such statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control. Factors that could cause actual results, performance or achievements to differ from those discussed in the forward-looking statements include, but are not limited to:

- *Local, regional, national and international economic conditions and the impact they may have on First Commonwealth and its customers;*
- *volatility and disruption in national and international financial markets;*
- *the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;*
- *inflation, interest rate, commodity price, securities market and monetary fluctuations;*
- *the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which First Commonwealth must comply;*
- *the soundness of other financial institutions;*
- *political instability;*
- *impairment of First Commonwealth's goodwill or other intangible assets;*
- *acts of God or of war or terrorism;*
- *the timely development and acceptance of new products and services and perceived overall value of these products and services by users;*
- *changes in consumer spending, borrowings and savings habits;*
- *changes in the financial performance and/or condition of First Commonwealth's borrowers;*
- *technological changes;*
- *acquisitions and integration of acquired businesses;*
- *First Commonwealth's ability to attract and retain qualified employees;*
- *changes in the competitive environment in First Commonwealth's markets and among banking organizations and other financial service providers;*
- *the ability to increase market share and control expenses;*
- *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;*
- *the reliability of First Commonwealth's vendors, internal control systems or information systems;*
- *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*
- *other risks and uncertainties described in the reports that First Commonwealth files with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.*

Forward-looking statements speak only as of the date on which they are made. First Commonwealth undertakes no obligation to update any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

# 3Q 2019 Highlights

| | 3Q19 | 2Q19 | 3Q18 | Change from 2Q19 | Change from 3Q18 |
|---|---|---|---|---|---|
| Net interest income[1] | $68.9 | $67.6 | $64.3 | *$1.3* | *$4.6* |
| Provision for credit losses | 2.7 | 2.8 | 3.0 | *(0.1)* | *(0.3)* |
| Fee revenue | 22.2 | 21.9 | 19.8 | *0.3* | *2.4* |
| Gain on sale of securities | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* |
| Derivative mark-to-market | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* |
| Operating expense[2] | 50.8 | 50.8 | 48.6 | *0.0* | *2.2* |
| Other expense[2] | 4.1 | 1.4 | 0.9 | *2.7* | *3.2* |
| Income taxes[1] | 6.9 | 7.2 | 6.5 | *(0.3)* | *0.4* |
| **Net income** | **$26.6** | **$27.3** | **$25.1** | ***($0.7)*** | ***$1.5*** |
| **Core net income[2]** | **$29.6** | **$27.3** | **$25.2** | ***$2.3*** | ***$4.4*** |
| Reported EPS | $0.27 | $0.28 | $0.25 | *($0.01)* | *$0.02* |
| Core EPS[2] | $0.30 | $0.28 | $0.25 | *$0.02* | *$0.05* |
| Return on average assets | 1.31% | 1.37% | 1.30% | *(0.06%)* | *0.01%* |
| Core return on average assets[2] | 1.46% | 1.37% | 1.30% | *0.09%* | *0.16%* |
| Return on average equity | 10.22% | 10.84% | 10.28% | *(0.62%)* | *(0.06%)* |
| Return on average tangible common equity[2] | 14.62% | 15.47% | 15.01% | *(0.85%)* | *(0.39%)* |
| Core return on average tangible common equity[2] | 16.20% | 15.48% | 15.02% | *0.72%* | *1.18%* |
| Core efficiency ratio[2] | 55.73% | 56.80% | 57.80% | *(1.07%)* | *(2.07%)* |
| Net interest margin[1] | 3.76% | 3.75% | 3.67% | *0.01%* | *0.09%* |
| Net Chargeoffs[3] | 0.25% | 0.10% | 0.25% | *0.15%* | *0.00%* |

- Core net income[2] of $29.6 million increased $2.3 million compared to the linked quarter (LQ), and increased $4.4 million year-over-year (YoY)
- Net interest income expansion of $4.6 million YoY was aided by improved loan yields combined with a $323 million increase in average interest-earning assets
  - The company was also able to pay down higher cost short-term borrowings for 24 days of the quarter following the completion of its acquisition of 14 former Santander branches and $471 million in deposits
- Provision expense decreased $0.1 million compared to LQ due to continued favorable asset quality trends
- Fee revenue increased $0.3 million from LQ primarily due to a $0.6 million increase in card-related interchange income and service charges and a $0.5 million increase in mortgage banking revenue, partially offset by a $0.8 million decrease in gain on sale of other loans due to a $0.5 million decrease in SBA revenue and a $0.4 million gain on the sale of a commercial loan in the previous quarter
- Operating expenses[2] were relatively unchanged from the previous quarter as a $0.6 million decrease in FDIC insurance was offset by a $0.5 million increase in hospitalization expense

(1) Taxable equivalent
(2) Please refer to pages 13 - 16 for disclosures regarding non-GAAP measures
(3) Quarter-to-date annualized

# Balance Sheet

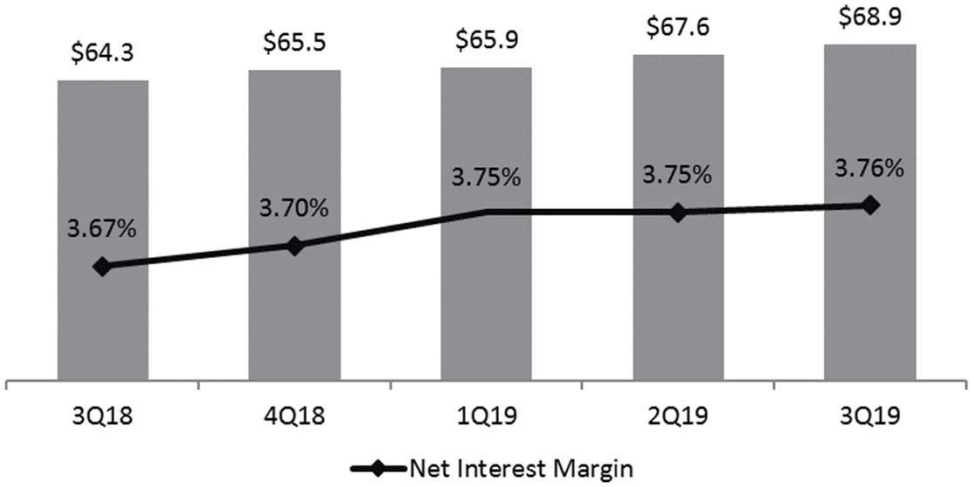
| Period-end Balances | 3Q19 | 2Q19 | 3Q18 | Change From 2Q19 | Change From 3Q18 |
|---|---|---|---|---|---|
| Cash & securities | $1,294 | $1,365 | $1,400 | *($71)* | *($106)* |
| Loans held for sale | 20 | 16 | 8 | *4* | *12* |
| Commercial loans | 3,670 | 3,716 | 3,551 | *(46)* | *119* |
| Consumer loans | 2,430 | 2,287 | 2,112 | *143* | *318* |
| Allowance for credit losses | (50) | (51) | (51) | *1* | *1* |
| OREO | 2 | 2 | 4 | *0* | *(2)* |
| Goodwill & intangibles | 321 | 287 | 288 | *34* | *33* |
| Other | 465 | 449 | 374 | *16* | *91* |
| **Total Assets** | **$8,152** | **$8,071** | **$7,686** | ***$81*** | ***$466*** |
| | | | | | |
| Noninterest Bearing DDA | $1,658 | $1,528 | $1,451 | *$130* | *$207* |
| Interest Bearing Savings & DDA | 4,130 | 3,769 | 3,635 | *361* | *495* |
| Time Deposits | 885 | 854 | 802 | *31* | *83* |
| Brokered Deposits | 5 | 5 | 7 | *0* | *(2)* |
| Short-term Borrowings | 84 | 555 | 588 | *(471)* | *(504)* |
| Long-term Debt | 234 | 235 | 185 | *(1)* | *49* |
| Other | 117 | 103 | 45 | *14* | *72* |
| Equity | 1,039 | 1,022 | 973 | *17* | *66* |
| **Total Liabilities & Equity** | **$8,152** | **$8,071** | **$7,686** | ***$81*** | ***$466*** |

- Total loans grew $101 million to LQ, inclusive of $100 million in loans acquired with the Santander branch acquisition
- The investment portfolio decreased $71 million to LQ due to unattractive reinvestment opportunities for maturing securities
- Excluding acquired deposits, noninterest-bearing demand deposits increased $78 million to LQ, or 20.3% annualized, and currently comprise 24.8% of total deposits
- Short-term borrowings decreased $471 million to LQ due to the company's ability to pay down borrowings following the completion of the aforementioned branch acquisition

$ in millions

# Net interest income and net interest margin

## Net Interest Income(1)




- Net interest income increased $1.3 million to LQ as the result of a $33 million increase in average mortgage loans (including $15 million acquired mortgage loans) and a $29 million increase in average indirect auto loans, partially offset by a $53 million decrease in average investment securities

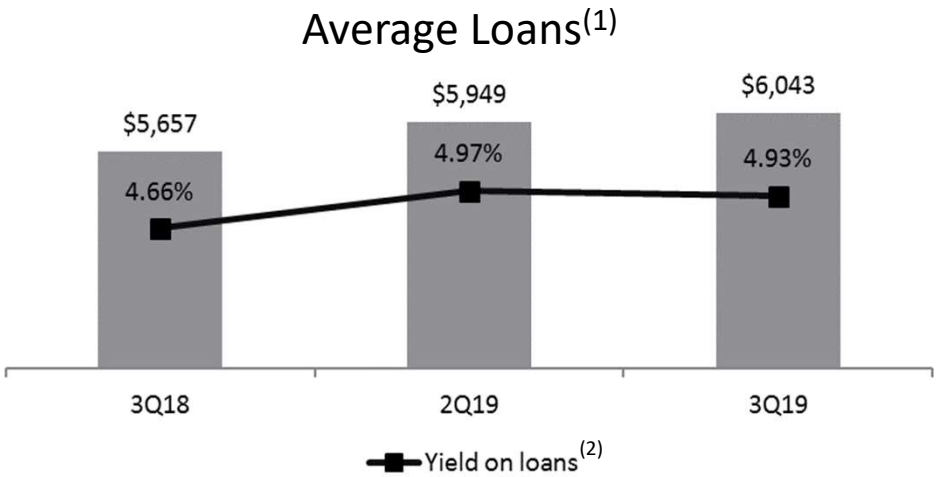
## Yield / Cost Trends(1)

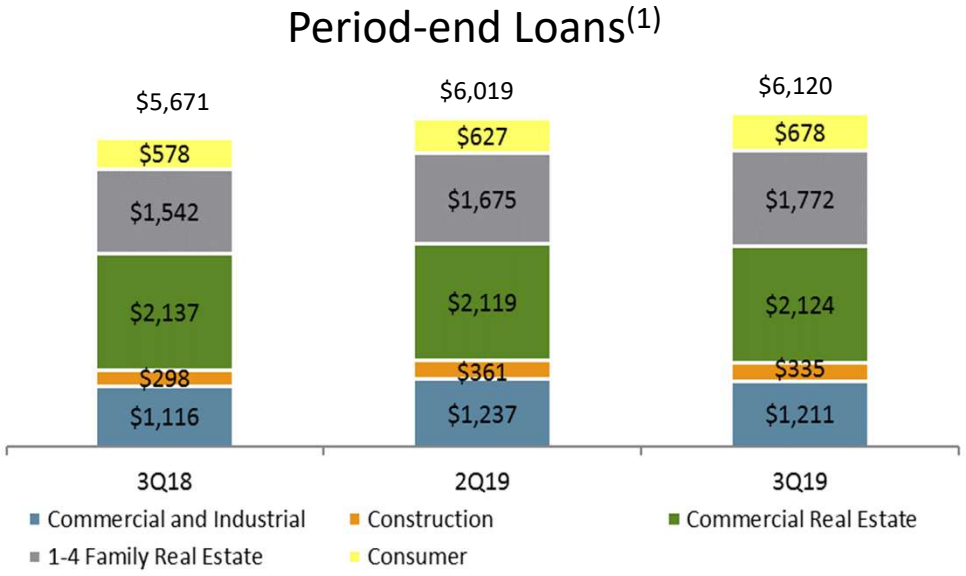



- Net interest margin of 3.76% increased one basis point (bp) to LQ:
  - A 6 bps decrease in the cost of funds was partially offset by a 5 bps decrease in the yield on earning assets

$ in millions
(1) Taxable equivalent

# Loans




(1) Includes loans held for sale
(2) Taxable equivalent yield

## Average

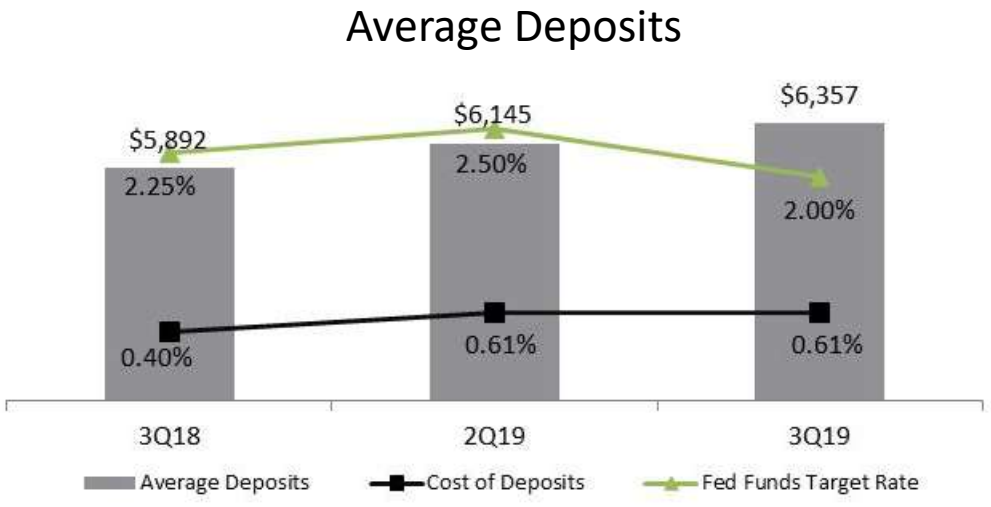
- Average loans increased $94 million from LQ and includes $26 million acquired with the Santander branch acquisition
- The yield on loans decreased 4 basis points from the previous quarter

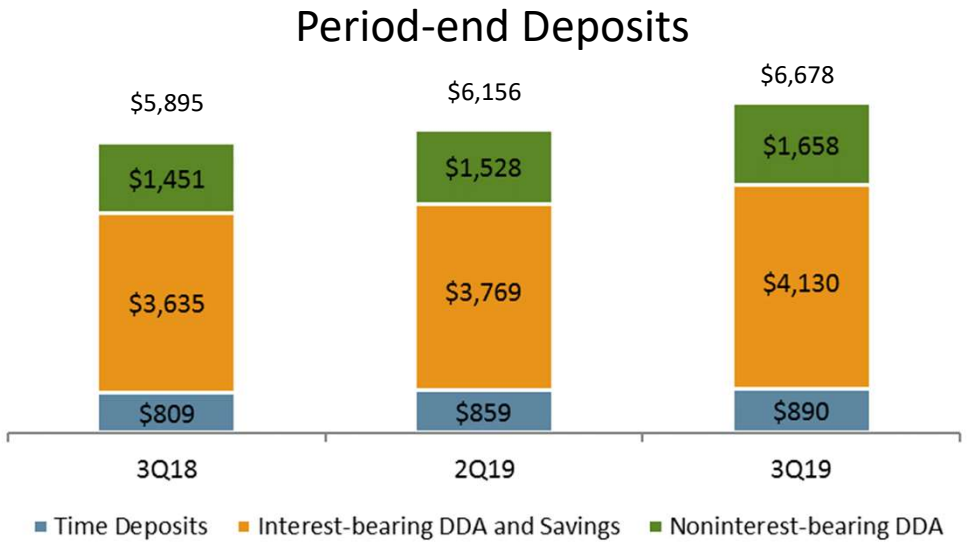
## Period-end

- Excluding acquired balances, loans increased $1 million from LQ and $349 million from the prior year
  - LQ loan growth (excluding acquired balance) was driven by:
    - + $39 million Consumer
    - + $24 million 1-4 Family Real Estate
    - – $4 million CRE
    - – $26 million Construction
    - – $32 million Commercial and Industrial

$ in millions

# Deposits




## Average

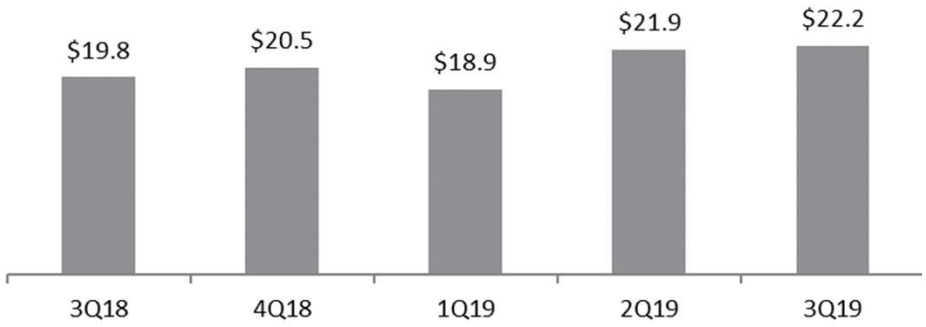
- Excluding acquired balances, average deposits increased $89 million from LQ and $342 million YoY
- The cost of total deposits of 0.61% was unchanged from the previous quarter
  - The cost of interest-bearing demand and savings deposits increased two bps from LQ
  - The cost of time deposits increased three bps from LQ
  - Average noninterest-bearing DDA increased $63 million ($41 million excluding acquired deposits)
  - The impact of the acquired deposits did not have a material impact on the cost of deposits during 3Q19

## Period-end

- Excluding acquired balances, total deposits increased $51 million from LQ and $312 million YoY
- Noninterest-bearing deposits currently comprise 24.8% of total deposits

# Noninterest income

| | 3Q19 | 2Q19 | 3Q18 | Change from 2Q19 | Change from 3Q18 |
|---|---|---|---|---|---|
| Service charges | $5.0 | $4.6 | $4.6 | *$0.4* | *$0.4* |
| Interchange | 5.6 | 5.4 | 5.0 | *0.2* | *0.6* |
| Trust | 2.3 | 2.0 | 2.2 | *0.3* | *0.1* |
| Insurance and retail brokerage | 1.9 | 2.0 | 1.9 | *(0.1)* | *0.0* |
| BOLI | 1.5 | 1.4 | 1.6 | *0.1* | *(0.1)* |
| SWAP fees | 0.4 | 0.8 | 0.5 | *(0.4)* | *(0.1)* |
| Gain on sale of mortgage loans | 2.6 | 2.1 | 1.5 | *0.5* | *1.1* |
| Gain on sale of other loans | 1.0 | 1.8 | 0.6 | *(0.8)* | *0.4* |
| Other fees | 1.9 | 1.8 | 1.7 | *0.1* | *0.2* |
| **Total fee income** | **$22.2** | **$21.9** | **$19.8** | ***$0.3*** | ***$2.4*** |
| Gain on sale of securities | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* |
| Derivative mark-to-market | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* |
| **Total noninterest income** | **$22.2** | **$21.9** | **$19.8** | ***$0.3*** | ***$2.4*** |

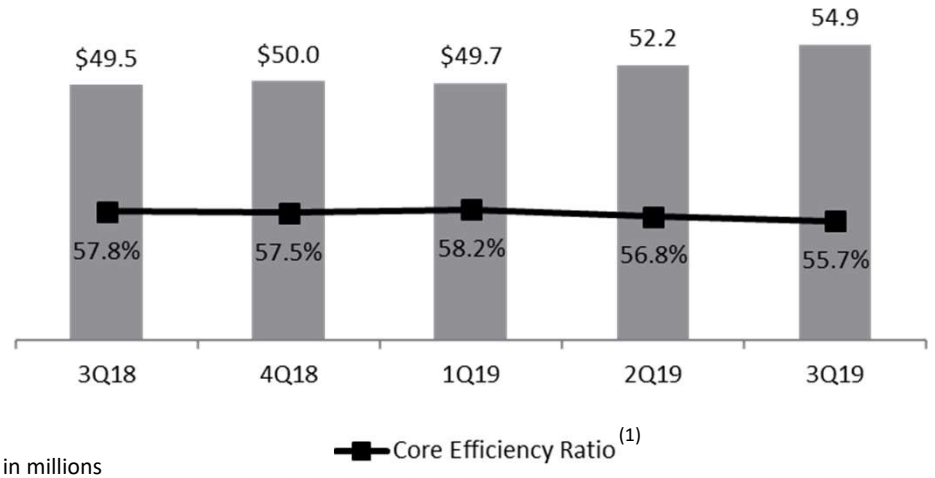



- Total fee income increased $0.3 million from LQ and $2.4 million YoY
- Service charges and card related interchange increased $0.6 million to LQ and Trust income increased $0.3 million due to seasonally higher reporting fees
- Gain on sale of mortgage loans increased $0.5 million to LQ due to higher originations and a higher sold portion of originations
  - Total mortgage originations of $129 million increased $8 million to LQ and increased $23 million YoY
  - 64% of mortgage production was sold in 3Q19 compared to 56% in 2Q19
- Gain on sale of other loans decreased $0.8 million to LQ primarily due to a $0.5 million decrease in the gain on sale of SBA loans and a $0.4 million gain on the sale of a commercial loan in the prior quarter

$ in millions

# Noninterest expense

| | 3Q19 | 2Q19 | 3Q18 | Change from 2Q19 | Change from 3Q18 |
|---|---|---|---|---|---|
| Salaries and benefits | $28.7 | $27.3 | $26.6 | *$1.4* | *$2.1* |
| Occupancy | 4.5 | 4.4 | 4.3 | *0.1* | *0.2* |
| Furniture and equipment | 3.9 | 3.8 | 3.4 | *0.1* | *0.5* |
| PA shares tax | 1.2 | 1.3 | 1.2 | *(0.1)* | *0.0* |
| Data processing | 2.8 | 2.6 | 2.9 | *0.2* | *(0.1)* |
| Collection and repo | 0.6 | 0.5 | 0.6 | *0.1* | *0.0* |
| Professional fees | 1.0 | 1.0 | 1.0 | *0.0* | *0.0* |
| FDIC insurance | 0.0 | 0.6 | 0.2 | *(0.6)* | *(0.2)* |
| Operational losses | 0.3 | 0.6 | 0.4 | *(0.3)* | *(0.1)* |
| Loss on sale or write-down of assets | 0.2 | 1.2 | 0.2 | *(1.0)* | *0.0* |
| Other operating expenses | 7.6 | 7.5 | 7.8 | *0.1* | *(0.2)* |
| **Total operating expense** | **$50.8** | **$50.8** | **$48.6** | ***$0.0*** | ***$2.2*** |
| Unfunded commitments | (0.5) | 0.6 | 0.1 | *(1.1)* | *(0.6)* |
| Intangible amortization | 0.9 | 0.8 | 0.8 | *0.1* | *0.1* |
| Acquisition expenses | 3.7 | 0.0 | 0.0 | *3.7* | *3.7* |
| **Total noninterest expense** | **$54.9** | **$52.2** | **$49.5** | ***$2.7*** | ***$5.4*** |



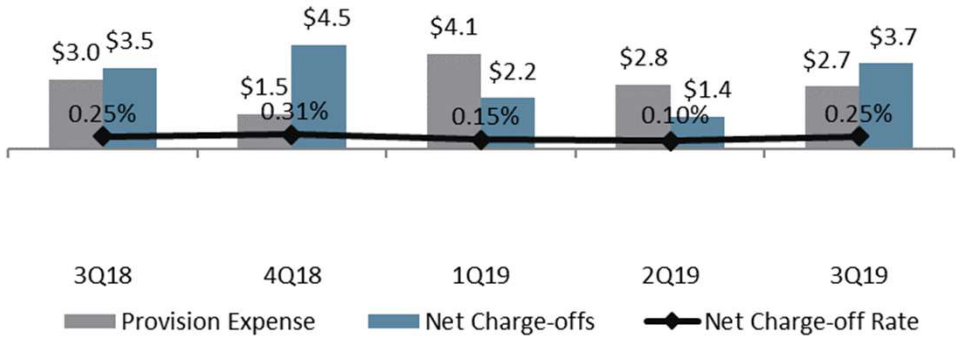

$ in millions

- Total operating expenses were relatively unchanged from the previous quarter and increased $2.2 million YoY
- FDIC insurance decreased $0.6 million due to a quarterly assessment credit which will phase out over the next three quarters. This was partially offset by a $0.5 million increase in hospitalization expense
- Unfunded commitment reserve expense decreased $1.1 million to LQ due to lower construction lending activity
- Acquisition expenses totaled $3.7 million in 3Q19
- FTEs increased 73 from LQ and increased 94 from the previous year, including 83 employees from the Santander branch acquisition

(1) Please refer to pages 13 – 16 for disclosures regarding non-GAAP measures

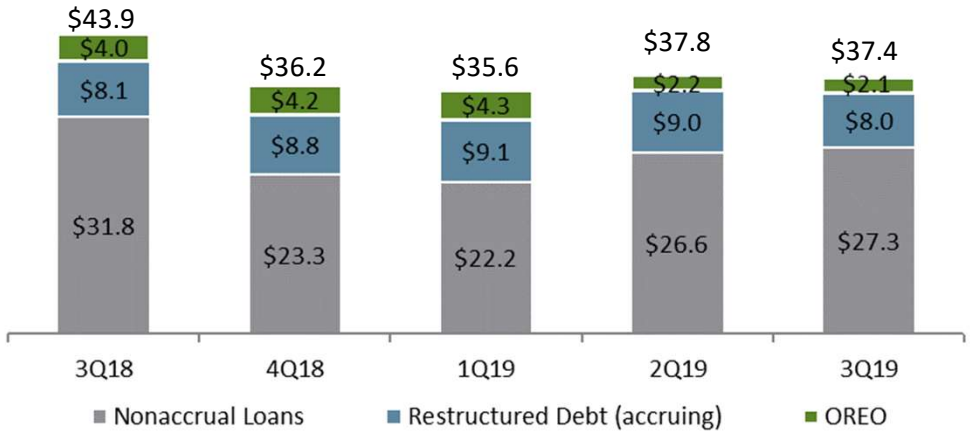
# Credit quality

## Provision Expense and Net Charge-offs




- Provision expense of $2.7 million decreased $0.1 million from LQ and $0.3 million YoY due to improved asset quality trends

## Nonperforming Assets

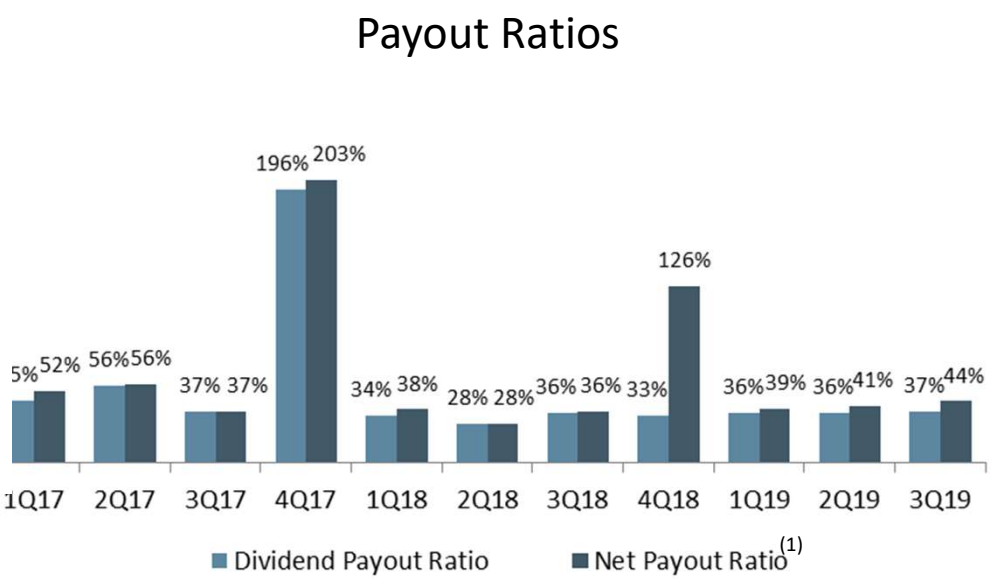



- Nonperforming assets decreased $0.4 million over LQ due to a $1.0 million decrease in accruing TDRs, partially offset by a $0.7 million increase in nonaccrual loans

(1) Net charge-offs as a percentage of period-to-date average loans, annualized

$ in millions

# Capital Return




- Strong capital levels allow us to continue to return capital to shareholders
  - Completed a $25 million share repurchase program in 4Q18
  - Announced a $25 million share repurchase program in 1Q19 ($20 million remaining)
  - Increased the quarterly dividend by 11.1% from $0.09 to $0.10 per share in 1Q19
  - Dividend payout ratio expected to remain in the 30%-60% range

(1) Net payout ratio represents common stock dividends and share repurchases less share issuances and stock compensation-related items, excluding acquisition-related items, divided by net income attributable to common stock.

# Appendix



Non-GAAP Measures

# Non-GAAP measures

| Operating Revenue | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Net Interest Income | $68.5 | $67.1 | $65.5 | $65.0 | $63.8 |
| Tax equivalent adjustment | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| Net Interest Income (FTE) | 68.9 | 67.6 | 66.0 | 65.5 | 64.3 |
| Noninterest Income (Reported) | 22.2 | 21.9 | 18.9 | 20.5 | 19.8 |
| Less: Realized gains / (losses) on securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Derivative mark-to-market | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Noninterest Income (Operating) | $22.2 | $21.9 | $18.9 | $20.5 | $19.8 |
| Total Operating Revenue | $91.1 | $89.5 | $84.9 | $86.0 | $84.1 |
| Average Assets | 8,050 | 7,986 | 7,879 | 7,733 | 7,662 |
| **Operating Revenue / Average Assets (%)** | **4.53%** | **4.48%** | **4.31%** | **4.45%** | **4.39%** |

| Operating Expense | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Noninterest Expense | $54.9 | $52.2 | $49.7 | $50.0 | $49.5 |
| Less: Unfunded commitment reserve | (0.5) | 0.6 | (0.4) | (0.2) | 0.1 |
| Less: Intangible amortization | 0.9 | 0.8 | 0.7 | 0.8 | 0.8 |
| Less: Merger and acquisition related | 3.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Operating Expense | $50.8 | $50.8 | $49.4 | $49.4 | $48.6 |
| Average Assets | 8,050 | 7,986 | 7,879 | 7,733 | 7,662 |
| **Operating Expense / Average Assets (%)** | **2.52%** | **2.54%** | **2.51%** | **2.56%** | **2.54%** |
| **Core Efficiency Ratio[(1)]** | **55.7%** | **56.8%** | **58.2%** | **57.4%** | **57.8%** |

$ in millions

(1) Core Efficiency Ratio is calculated as Operating Expense as a percentage of Operating Revenue

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

# Non-GAAP measures

| Core Earnings per Share | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Net Income (GAAP) | $26.6 | $27.3 | $24.6 | $27.0 | $25.1 |
| Less: Merger and acquisition related *(after tax)* | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Core Net Income (Non-GAAP)** | **$29.6** | **$27.3** | **$24.6** | **$27.0** | **$25.1** |
| | | | | | |
| Average Diluted Shares Outstanding | 98.5 | 98.6 | 98.7 | 99.4 | 100.5 |
| **Core Earnings per Share (Non-GAAP)** | **$0.30** | **$0.28** | **$0.25** | **$0.27** | **$0.25** |

| Core Return on Average Assets (%) | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Net Income (GAAP) | $26.6 | $27.3 | $24.6 | $27.0 | $25.1 |
| Less: Merger and acquisition related *(after tax)* | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Core Net Income (Non-GAAP)** | **$29.6** | **$27.3** | **$24.6** | **$27.0** | **$25.1** |
| | | | | | |
| Average Assets | 8,050 | 7,986 | 7,879 | 7,733 | 7,662 |
| **Core Return on Average Assets (Non-GAAP)** | **1.46%** | **1.37%** | **1.27%** | **1.39%** | **1.30%** |

$ in millions, except per share data

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

# Non-GAAP measures

| Return on Average Tangible Common Equity (%) | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Average Equity | $1,034 | $1,009 | $987 | $969 | $970 |
| Less: Average intangible assets | 293 | 287 | 287 | 288 | 288 |
| Less: Average preferred stock | 0 | 0 | 0 | 0 | 0 |
| Average Tangible Common Equity | $741 | $722 | $700 | $681 | $682 |
| | | | | | |
| Net Income (GAAP) | $26.6 | $27.3 | $24.6 | $27.0 | $25.1 |
| Less: Intangible amortization *(after tax)* | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Net Income Adjusted for Intangible Amortization (Non-GAAP) | $27.3 | $27.9 | $25.2 | $27.6 | $25.7 |
| | | | | | |
| **Return on Average Tangible Common Equity** | **14.6%** | **15.5%** | **14.6%** | **16.1%** | **15.0%** |

| Core Return on Average Tangible Common Equity (%) | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Average Equity | $1,034 | $1,009 | $987 | $969 | $970 |
| Less: Average intangible assets | 293 | 287 | 287 | 288 | 288 |
| Less: Average preferred stock | 0 | 0 | 0 | 0 | 0 |
| Average Tangible Common Equity | $741 | $722 | $700 | $681 | $682 |
| | | | | | |
| Net Income (GAAP) | $26.6 | $27.3 | $24.6 | $27.0 | $25.1 |
| Less: Merger and acquisition related *(after tax)* | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core Net Income (Non-GAAP) | $29.6 | $27.3 | $24.6 | $27.0 | $25.1 |
| Less: Intangible amortization *(after tax)* | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Core Net Income Adjusted for Intangible Amortization (Non-GAAP) | $30.3 | $27.9 | $25.2 | $27.6 | $25.7 |
| | | | | | |
| **Core Return on Average Tangible Common Equity** | **16.2%** | **15.5%** | **14.6%** | **16.1%** | **15.0%** |

$ in millions, except per share data

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

# Non-GAAP measures

**Tangible Common Equity / Tangible Assets**

| (Tangible Common Equity Ratio) | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 |
|---|---|---|---|---|---|
| Total Equity | $1,039 | $1,022 | $998 | $975 | $973 |
| Less: Intangible assets | 320 | 287 | 287 | 287 | 288 |
| Less: Preferred stock | 0 | 0 | 0 | 0 | 0 |
| Tangible Common Equity | $719 | $735 | $711 | $688 | $685 |
| | | | | | |
| Total Assets | $8,152 | $8,071 | $7,973 | $7,828 | $7,686 |
| Less: Intangible assets | 320 | 287 | 287 | 287 | 288 |
| Tangible Assets | $7,832 | $7,784 | $7,686 | $7,541 | $7,398 |
| | | | | | |
| **Tangible Common Equity / Tangible Assets** | **9.2%** | **9.4%** | **9.3%** | **9.1%** | **9.3%** |

$ in millions

Note: Management believes that it is standard practice in the banking industry to present these non-GAAP measures. These measures provide useful information to management and investors by allowing them to make peer comparisons.

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