FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
August 08, 2013

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

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

For the quarterly period ended June 30, 2013
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 (State or other jurisdiction of incorporation or organization)	25-1428528 (I.R.S. Employer Identification No.)
601 Philadelphia Street, Indiana, PA (Address of principal executive offices)	15701 (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 x 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 x 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 x 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 x
The number of shares outstanding of issuer's common stock, $1.00 par value, as of August 5, 2013, was 96,442,161.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q
INDEX

		PAGE
PART I.	Financial Information	
ITEM 1.	Financial Statements and Supplementary Data	
	Included in Part I of this report:	
	First Commonwealth Financial Corporation and Subsidiaries	
	Condensed Consolidated Statements of Financial Condition (Unaudited)	3
	Condensed Consolidated Statements of Income (Unaudited)	4
	Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)	5
	Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)	6
	Condensed Consolidated Statements of Cash Flows (Unaudited)	7
	Notes to Unaudited Condensed Consolidated Financial Statements	8
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	39
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	58
ITEM 4.	Controls and Procedures	58
PART II.	Other Information	
ITEM 1.	Legal Proceedings	59
ITEM 1A.	Risk Factors	59
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	60
ITEM 3.	Defaults Upon Senior Securities	60
ITEM 4.	Mine Safety Disclosures	60
ITEM 5.	Other Information	60
ITEM 6.	Exhibits	61
	Signatures	62

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	June 30, 2013	December 31, 2012
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$77,485	$98,724
Interest-bearing bank deposits	4,497	4,258
Securities available for sale, at fair value	1,306,687	1,171,303
Other investments	33,913	28,228
Loans:		
Portfolio loans	4,229,752	4,204,704
Allowance for credit losses	(57,452)	(67,187)
Net loans	4,172,300	4,137,517
Premises and equipment, net	67,751	68,970
Other real estate owned	15,603	11,262
Goodwill	159,956	159,956
Amortizing intangibles, net	1,721	2,375
Bank owned life insurance	172,346	170,925
Other assets	140,757	141,872
Total assets	$6,153,016	$5,995,390
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$900,940	$883,269
Interest-bearing	3,832,107	3,674,612
Total deposits	4,733,047	4,557,881
Short-term borrowings	441,848	356,227
Subordinated debentures	72,167	105,750
Other long-term debt	144,615	174,471
Total long-term debt	216,782	280,221
Other liabilities	50,664	55,054
Total liabilities	5,442,341	5,249,383
Shareholders' Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	—	—
Common stock, $1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued at June 30, 2013 and December 31, 2012, and 96,442,161 and 99,629,494 shares outstanding at June 30, 2013 and December 31, 2012, respectively	105,563	105,563
Additional paid-in capital	365,352	365,354
Retained earnings	321,135	315,608
Accumulated other comprehensive (loss) income, net	(16,722)	1,259
Treasury stock (9,121,294 and 5,933,961 shares at June 30, 2013 and December 31, 2012, respectively)	(64,653)	(41,777)
Total shareholders' equity	710,675	746,007
Total liabilities and shareholders' equity	$6,153,016	$5,995,390

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

3

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data (Continued)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three-Months Ended		For the Six-Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	$43,629	$46,408	$88,243	$94,448
Interest and dividends on investments:				
Taxable interest	7,319	8,279	14,428	16,828
Interest exempt from federal income taxes	1	5	2	10
Dividends	30	19	66	40
Interest on bank deposits	2	1	3	2
Total interest income	50,981	54,712	102,742	111,328
Interest Expense				
Interest on deposits	4,007	5,643	8,198	11,890
Interest on short-term borrowings	287	279	507	506
Interest on subordinated debentures	580	1,422	1,964	2,855
Interest on other long-term debt	409	450	957	989
Total interest on long-term debt	989	1,872	2,921	3,844
Total interest expense	5,283	7,794	11,626	16,240
Net Interest Income	45,698	46,918	91,116	95,088
Provision for credit losses	10,800	4,297	15,297	8,084
Net Interest Income after Provision for Credit Losses	34,898	42,621	75,819	87,004
Noninterest Income				
Changes in fair value on impaired securities	2,841	(1,323)	4,705	175
Non-credit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)	(2,841)	1,323	(4,705)	(175)
Net impairment losses	—	—	—	—
Net securities gains	4	—	8	—
Trust income	1,608	1,607	3,271	3,149
Service charges on deposit accounts	3,815	3,737	7,216	7,239
Insurance and retail brokerage commissions	1,384	1,670	2,801	3,094
Income from bank owned life insurance	1,432	1,459	2,860	2,904
Gain on sale of assets	425	1,444	700	3,559
Card related interchange income	3,490	3,285	6,678	6,399
Other income	2,773	2,894	6,282	7,132
Total noninterest income	14,931	16,096	29,816	33,476
Noninterest Expense				
Salaries and employee benefits	21,497	22,363	43,290	44,121
Net occupancy expense	3,221	3,303	6,856	6,707
Furniture and equipment expense	3,297	3,024	6,569	6,208
Data processing expense	1,503	1,796	3,019	3,359
Pennsylvania shares tax expense	1,517	1,510	2,707	2,693
Intangible amortization	297	371	655	742
Collection and repossession expense	851	670	2,002	3,369
Other professional fees and services	948	940	1,917	2,139

FDIC insurance	1,084	1,262	2,134	2,499
Loss on redemption of subordinated debt	1,629	—	1,629	—
Other operating expenses	6,154	6,609	12,674	16,763
Total noninterest expense	41,998	41,848	83,452	88,600
Income Before Income Taxes	7,831	16,869	22,183	31,880
Income tax provision	2,015	4,548	5,814	8,508
Net Income	$5,816	$12,321	$16,369	$23,372
Average Shares Outstanding	97,564,699	104,894,261	98,421,956	104,852,494
Average Shares Outstanding Assuming Dilution	97,577,010	104,901,239	98,429,223	104,855,543
Per Share Data:				
Basic Earnings per Share	$0.06	$0.12	$0.17	$0.22
Diluted Earnings per Share	$0.06	$0.12	$0.17	$0.22
Cash Dividends Declared per Common Share	$0.06	$0.05	$0.11	$0.08

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data (Continued)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Net Income	$5,816	$12,321	$16,369	$23,372
Other comprehensive (loss) income, before tax expense:				
Unrealized holding (losses) gains on securities arising during the period	(28,071)	998	(32,346)	1,097
Non-credit related gains (losses) on securities not expected to be sold	2,841	(1,323)	4,705	175
Less: reclassification adjustment for gains on securities included in net income	(4)	—	(8)	—
Total other comprehensive (loss) income, before tax expense	(25,234)	(325)	(27,649)	1,272
Income tax benefit (expense) related to items of other comprehensive income	8,824	119	9,668	(439)
Total other comprehensive (loss) income	$(16,410)	$(206)	$(17,981)	$833
Comprehensive (Loss) Income	$(10,594)	$12,115	$(1,612)	$24,205

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data (Continued)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
	(dollars in thousands, except per share data)							
Balance at December 31, 2012	99,629,494	$105,563	$365,354	$315,608	$ 1,259	$(41,777)	$—	$746,007
Net income				16,369				16,369
Other comprehensive loss					(17,981)			(17,981)
Cash dividends declared ($0.11 per share)				(10,842)				(10,842)
Discount on dividend reinvestment plan purchases			(55)					(55)
Treasury stock acquired	(3,267,692)					(23,247)		(23,247)
Treasury stock reissued	25,359			—		176		176
Restricted stock	55,000	—	53	—		195		248
Balance at June 30, 2013	96,442,161	$105,563	$365,352	$321,135	$ (16,722)	$(64,653)	$—	$710,675

	Shares Outstanding	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
	(dollars in thousands, except per share data)							
Balance at December 31, 2011	104,916,994	$105,563	$365,868	$294,056	$ 2,001	$(7,345)	$(1,600)	$758,543
Net income				23,372				23,372
Other comprehensive income					833			833
Cash dividends declared ($0.08 per share)				(8,402)				(8,402)
Net decrease in unearned ESOP shares							1,000	1,000
			(310)					(310)

ESOP market value adjustment ($477, net of $167 tax benefit)								
Discount on dividend reinvestment plan purchases			(42)					(42)
Tax benefit of stock options exercised			1					1
Treasury stock acquired	(469,700)					(3,045)		(3,045)
Treasury stock reissued	57,552		—	(296)		650		354
Restricted stock	224,000	—	24	(1,264)		1,426		186
Balance at June 30, 2012	104,728,846	$105,563	$365,541	$307,466	$2,834	$(8,314)	$(600)	$772,490

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

6

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data (Continued)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six-Months Ended June 30,	
	2013	2012
	(dollars in thousands)	
Operating Activities		
Net income	$16,369	$23,372
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	15,297	8,084
Deferred tax expense	3,848	1,934
Depreciation and amortization	4,736	3,800
Net losses (gains) on securities and other assets	418	(522)
Net amortization of premiums and discounts on securities	1,162	717
Net amortization of premiums and discounts on long term debt	(58)	(56)
Income from increase in cash surrender value of bank owned life insurance	(2,860)	(2,904)
Decrease in interest receivable	606	1,031
Decrease in interest payable	(1,284)	(951)
(Decrease) increase in income taxes payable	(250)	7,042
Decrease in prepaid FDIC insurance	9,205	2,328
Other-net	(3,497)	(6,273)
Net cash provided by operating activities	43,692	37,602
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	42	—
Proceeds from maturities and redemptions	195,806	276,167
Purchases	(360,010)	(292,056)
Purchases of FHLB stock	(10,670)	—
Proceeds from the redemption of FHLB stock	4,984	3,880
Proceeds from bank owned life insurance	1,439	1,408
Proceeds from sale of loans	20,348	15,981
Proceeds from sales of other assets	2,853	10,971
Net increase in loans	(77,496)	(125,567)
Purchases of premises and equipment	(3,106)	(4,022)
Net cash used in investing activities	(225,810)	(113,238)
Financing Activities		
Net decrease in federal funds purchased	(24,000)	(26,300)
Net increase in other short-term borrowings	109,621	187,787
Net increase (decrease) in deposits	175,186	(42,692)
Repayments of other long-term debt	(29,797)	(25,238)
Repayments of subordinated debentures	(34,702)	—
Discount on dividend reinvestment plan purchases	(55)	(42)
Dividends paid	(10,842)	(8,402)
Proceeds from reissuance of treasury stock	176	354
Purchase of treasury stock	(24,469)	(1,812)
Stock option tax benefit	—	1
Net cash provided by financing activities	161,118	83,656

Net (decrease) increase in cash and cash equivalents	(21,000)	8,020
Cash and cash equivalents at January 1	102,982	78,478
Cash and cash equivalents at June 30	$81,982	$86,498

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
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 "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, cash flows and changes in shareholders' equity as of and for the periods presented.
The results of operations for the six-months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year of 2013. These interim financial statements should be read in conjunction with First Commonwealth's 2012 Annual Report on Form 10-K which is available on First Commonwealth's website at http://www.fcbanking.com.
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 in the Condensed Consolidated Statements of Income. The non-credit related (losses) gains on securities not expected to be sold are included in the "Noninterest Income" section of the Condensed Consolidated Statements of Income.

	For the Six-Months Ended June 30					
	2013			2012		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	$(32,346)	$11,312	$(21,034)	$1,097	$(378)	$719
Non-credit related gains on securities not expected to be sold	4,705	(1,647)	3,058	175	(61)	114
Reclassification adjustment for gains on securities included in net income	(8)	3	(5)	—	—	—
Total available for sale securities	$(27,649)	$9,668	$(17,981)	$1,272	$(439)	$833
Total other comprehensive (loss) income	$(27,649)	$9,668	$(17,981)	$1,272	$(439)	$833

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three-Months Ended June 30					
	2013			2012		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	$(28,071)	$9,817	$(18,254)	$998	$(344)	$654
Non-credit related gains (losses) on securities not expected to be sold	2,841	(995)	1,846	(1,323)	463	(860)
Reclassification adjustment for gains on securities included in net income	(4)	2	(2)	—	—	—
Total available for sale securities	$(25,234)	$8,824	$(16,410)	$(325)	$119	$(206)
Total other comprehensive loss	$(25,234)	$8,824	$(16,410)	$(325)	$119	$(206)

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

	2013			2012		
	Securities Available for Sale	Post-Retirement Obligation	Accumulated Other Comprehensive Income	Securities Available for Sale	Post-Retirement Obligation	Accumulated Other Comprehensive Income
	(dollars in thousands)					
Balance at December 31	$1,121	$ 138	$ 1,259	$1,669	$ 332	$ 2,001
Other comprehensive (loss) income before reclassification adjustment	(21,034)	—	(21,034)	719	—	719
Amounts reclassified from accumulated other comprehensive income (loss)	3,053	—	3,053	114	—	114
Net other comprehensive (loss) income during the period	(17,981)	—	(17,981)	833	—	833
Balance at June 30	$(16,860)	$ 138	$ (16,722)	$2,502	$ 332	$ 2,834

Note 3 Supplemental Cash Flow Disclosures

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

	2013	2012
	(dollars in thousands)	
Cash paid during the period for:		
Interest	$12,990	$17,278
Income taxes	2,200	5,700
Non-cash investing and financing activities:		
ESOP loan reductions	$—	$1,000
Loans transferred to other real estate owned and repossessed assets	7,371	3,227

Loans transferred from held to maturity to held for sale	20,135	—
Gross (decrease) increase in market value adjustment to securities available for sale	(27,625)	1,254
Unsettled treasury stock repurchases	—	1,233

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
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 June 30		For the Six-Months Ended June 30	
	2013	2012	2013	2012
Weighted average common shares issued	105,563,455	105,563,455	105,563,455	105,563,455
Average treasury shares	(7,823,276)	(410,247)	(6,968,649)	(476,286)
Averaged unearned ESOP shares	—	(50,170)	—	(67,580)
Average unearned nonvested shares	(175,480)	(208,777)	(172,850)	(167,095)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	97,564,699	104,894,261	98,421,956	104,852,494
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	12,311	6,978	7,267	3,049
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	97,577,010	104,901,239	98,429,223	104,855,543

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

	2013			2012		
		Price Range			Price Range	
	Shares	From	To	Shares	From	To
Stock Options	40,210	$9.59	$14.55	329,866	$6.36	$14.55
Restricted Stock	92,059	5.96	7.35	96,113	5.96	6.82

Note 5 Variable Interest Entities

As defined by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810-10, a Variable Interest Entity (“VIE”) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE’s activities, is entitled to receive a majority of the entity’s residual returns, or both.

First Commonwealth’s VIEs are evaluated under the guidance included in FASB Accounting Standards Update (“ASU”) 2009-17. These VIEs include qualified affordable housing projects that First Commonwealth has invested in as part of its community reinvestment initiatives. We periodically assess whether or not our variable interests in the VIE, based on qualitative analysis, provide us with a controlling interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. We do not have a controlling financial interest in the VIE, which would require consolidation of the VIE, as we do not have the following characteristics: (1) the power to direct the activities that most significantly impact the VIE’s economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

First Commonwealth’s maximum potential exposure is equal to its carrying value and is summarized in the table below:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	

Low Income Housing Limited Partnership Investments	$272	$347

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Commitments and Contingent Liabilities
Commitments and letters of credit
Standby letters of credit and commercial letters of credit are conditional commitments issued by First Commonwealth to guarantee the performance of a customer to a third party. The contract or notional amount of these instruments reflects the maximum amount of future payments that First Commonwealth could be required to pay under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In addition, many of these commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.
The following table identifies the notional amount of those instruments at:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$1,542,449	$1,506,618
Financial standby letters of credit	40,677	47,185
Performance standby letters of credit	44,389	69,240
Commercial letters of credit	—	685

The notional amounts outstanding as of June 30, 2013 include amounts issued in 2013 of $46 thousand in financial standby letters of credit and $0.5 million in performance standby letters of credit. There were no commercial letters of credit issued during 2013. A liability of $0.1 million and $0.2 million has been recorded as of June 30, 2013 and December 31, 2012, respectively, which represents the estimated fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued.
Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. Management’s evaluation of the credit risk in these commitments resulted in the recording of a liability of $2.3 million as of June 30, 2013 and $2.4 million as of December 31, 2012. 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
McGrogan v. First Commonwealth Bank is a class action that was filed on January 12, 2009, in the Court of Common Pleas of Allegheny County, Pennsylvania. The action alleges that First Commonwealth Bank (the “Bank”) promised class members a minimum interest rate of 8% on its IRA Market Rate Savings Account for as long as the class members kept their money on deposit in the IRA account. The class asserts that the Bank committed fraud, breached its modified contract with the class members, and violated the Pennsylvania Unfair Trade Practice and Consumer Protection Law when it resigned as custodian of the IRA Market Rate Savings Accounts in 2008 and offered the class members a roll-over IRA account with a 3.5% interest rate. At that time, there were 237 account holders with an average age of 64, and the aggregate balances in the IRA Market Rate Savings accounts totaled approximately $11.5 million. Plaintiffs seek monetary damages for the alleged breach of contract, punitive damages for the alleged fraud and Unfair Trade Practice and Consumer Protection Law violations and attorney’s fees. On July 27, 2011, the court granted class certification as to the breach of modified contract claim and denied class certification as to the fraud and Pennsylvania Unfair Trade Practice and Consumer Protection Law claims. The breach of contract claim is predicated upon a letter sent to customers in 1998 which reversed an earlier decision by the Bank to reduce the rate paid on the accounts. The letter stated, in relevant part, “This letter will serve as notification that a decision has been made to re-establish the rate on your account to eight percent (8)%. This rate will be retroactive to your most recent maturity

date and will continue going forward on deposits presently in the account and on annual additions." On August 30, 2012, the Court entered an order granting the Bank's motion for summary judgment and dismissing the class action claims. The Court found that the Bank retained the right to resign as custodian of the accounts and that the act of resigning as custodian and closing the accounts did not breach the terms of the underlying IRA contract. The Plaintiffs have filed an appeal with the Pennsylvania Superior Court. The appeal was argued before the Superior Court on May 7, 2013. A decision is currently pending.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other matters

First Commonwealth identified an error related to historical tax reporting for approximately 700-900 customers. A liability related to this error is considered probable, resulting in the establishment of an $0.8 million contingency reserve as of June 30, 2013. The total $0.8 million reserve for this issue represents management's best estimate of liability as resolution of this issue is in the initial stages. The contingent reserve is included in “Other liabilities” in the Condensed Consolidated Statements of Financial Condition.

There are no other 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 or financial position of First Commonwealth or its subsidiaries.

Note 7 Investment Securities

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

	June 30, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	$25,119	$2,944	$(27)	$28,036	$27,883	$3,781	$—	$31,664
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	981,279	14,549	(17,643)	978,185	839,102	25,691	(392)	864,401
Mortgage-Backed Securities – Commercial	125	1	—	126	148	1	—	149
Other Government-Sponsored Enterprises	267,966	311	(2,981)	265,296	241,970	766	(72)	242,664
Obligations of States and Political Subdivisions	81	2	—	83	82	4	—	86
Corporate Securities	6,698	312	(26)	6,984	6,703	288	—	6,991
Pooled Trust Preferred Collateralized Debt Obligations	49,531	422	(24,084)	25,869	51,866	3	(28,496)	23,373
Total Debt Securities	1,330,799	18,541	(44,761)	1,304,579	1,167,754	30,534	(28,960)	1,169,328
Equities	1,820	288	—	2,108	1,859	116	—	1,975
Total Securities Available for Sale	$1,332,619	$18,829	$(44,761)	$1,306,687	$1,169,613	$30,650	$(28,960)	$1,171,303

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and estimated fair value of debt securities available for sale at June 30, 2013, by contractual maturity, are shown below. 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.

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	$28,081	$28,265
Due after 1 but within 5 years	239,966	237,114
Due after 5 but within 10 years	—	—
Due after 10 years	56,229	32,853
	324,276	298,232
Mortgage-Backed Securities (a)	1,006,523	1,006,347
Total Debt Securities	$1,330,799	$1,304,579

(a) Mortgage Backed Securities include an amortized cost of $25.1 million and a fair value of $28.0 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of $981.4 million and a fair value of $978.3 million for Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac.

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

	2013	2012
	(dollars in thousands)	
Proceeds from sales	$42	$—
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	$4	$—
Gross losses	—	—
	4	—
Maturities and impairment		
Gross gains	4	—
Gross losses	—	—
Other-than-temporary impairment	—	—
	4	—
Net gains and impairment	$8	$—

Securities available for sale with an estimated fair value of $645.6 million and $631.0 million were pledged as of June 30, 2013 and December 31, 2012, respectively, to secure public deposits and for other purposes required or permitted by law.

Note 8 Other Investments

As a member of the Federal Home Loan Bank ("FHLB"), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. The level of stock required to be held is dependent on the amount of First Commonwealth's mortgage related assets and outstanding borrowings with the FHLB. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2013 and December 31, 2012, our FHLB stock totaled $33.9 million and $28.2 million,

respectively and is included in “Other investments” on the Condensed Consolidated Statements of Financial Condition. During 2013 and 2012, the FHLB repurchased excess stock from its members by repurchasing the lessor of 5% of the members’ total capital stock outstanding or its total excess capital stock. As a result, during the six-months ended June 30, 2013 and 2012, $5.0 million and $3.9 million, respectively of the stock owned by First Commonwealth was repurchased. The FHLB repurchased stock and paid dividends in 2013 and 2012, however, decisions regarding any future repurchase of excess

capital stock and dividend payments will be made by the FHLB on a quarterly basis. Management reviewed the FHLB's Form 10-Q for the period ended March 31, 2013 filed with the SEC on May 8, 2013.

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. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

- its operating performance;
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and
- its liquidity and funding position.

After evaluating all of these considerations, First Commonwealth concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the six-months ended June 30, 2013. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 9 Impairment of Investment Securities

As required by FASB ASC Topic 320, "Investments – Debt and Equity Securities," credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in OCI. During the six-months ended June 30, 2013 and 2012, no other-than-temporary impairment charges were recognized. For the six-months ended June 30, 2013, $4.7 million in non-credit related gains on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. For the same period in 2012, $0.2 million in non-credit related gains for the same pool of securities was recorded in OCI. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities.

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.

In the Condensed Consolidated Statements of Income, the "Changes in fair value on impaired securities" line represents the change in fair value of securities impaired in the current or previous periods. The change in fair value includes both non-credit and credit related gains or losses. Credit related losses occur when the entire amortized cost of the security will not be recovered. The "Non-credit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)" line represents the gains and losses on the securities resulting from factors other than credit. The non-credit related gain or loss is disclosed in the Condensed Consolidated Statements of Income and recognized through other comprehensive income. The "Net impairment losses" line represents the credit related losses recognized in total noninterest income for the related period.

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 12, “Fair Values of Assets and Liabilities,” for additional information.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the gross unrealized losses and estimated fair values at June 30, 2013 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	$2,096	$(27)	$—	$—	$2,096	$(27)
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	$550,385	$(17,643)	$—	$—	$550,385	$(17,643)
Other Government-Sponsored Enterprises	$186,985	$(2,981)	$—	$—	$186,985	$(2,981)
Corporate Securities	4,798	(26)	—	—	4,798	(26)
Pooled Trust Preferred Collateralized Debt Obligations	$33	$(23)	$21,706	$(24,061)	$21,739	$(24,084)
Total Securities Available for Sale	$744,297	$(20,700)	$21,706	$(24,061)	$766,003	$(44,761)

At June 30, 2013, pooled trust preferred collateralized debt obligations accounted for 54% of the unrealized losses, while fixed income securities issued by U.S. Government-sponsored enterprises comprised 46% of total unrealized losses. The unrealized losses related to U.S. Government-sponsored enterprises are the result of interest rate movements. There were no equity securities in an unrealized loss position at June 30, 2013.

The following table presents the gross unrealized losses and estimated fair values at December 31, 2012 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	$—	$—	$13	$— (a)	$13	$—
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	76,296	(392)	21	— (a)	76,317	(392)
Other Government-Sponsored Enterprises	59,303	(72)	—	—	59,303	(72)
Pooled Trust Preferred Collateralized Debt Obligations	—	—	23,316	(28,496)	23,316	(28,496)
Total Securities Available for Sale	$135,599	$(464)	$23,350	$(28,496)	$158,949	$(28,960)

(a) Gross unrealized losses related to these types of securities are less than $1 thousand.

As of June 30, 2013 and December 31, 2012, our corporate securities had an amortized cost and an estimated fair value of $6.7 million and $7.0 million, and were comprised of single issue trust preferred securities issued primarily by large regional banks. When unrealized losses exist on these investments, management reviews each of the issuer’s asset quality, earnings trend 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 June 30, 2013, the book value of our pooled trust preferred collateralized debt obligations totaled $49.5 million with an estimated fair value of $25.9 million, which includes securities comprised of 309 banks and other financial institutions. One of our pooled securities is a senior tranche and the remainders are mezzanine tranches, four of which have no senior class remaining in the issue. One of the pooled issues, representing $2 thousand of the $49.5 million book value, remain above 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 June 30, 2013, after taking into account management’s best estimates of future interest deferrals and

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

defaults, seven of our securities had no excess subordination in the tranches we own and four of our securities had excess subordination which ranged from 10% to 51% of the current performing collateral.

The following table provides information related to our pooled trust preferred collateralized debt obligations as of June 30, 2013:

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 I	Senior	$2	$2	$—	Aa3/A	9	33.33 %	NM
Pre TSL IV	Mezzanine	1,830	1,206	(624)	Caa2/CCC	6	18.05	50.84
Pre TSL V	Mezzanine	56	33	(23)	C/–	3	100.00	—
Pre TSL VII	Mezzanine	3,705	4,127	422	Ca/C	15	52.80	—
Pre TSL VIII	Mezzanine	1,898	1,022	(876)	C/C	30	58.01	—
Pre TSL IX	Mezzanine	2,286	1,041	(1,245)	Ca/C	44	27.04	9.94
Pre TSL X	Mezzanine	1,333	1,253	(80)	Ca/C	47	34.92	—
Pre TSL XII	Mezzanine	5,357	2,762	(2,595)	Ca/C	70	31.25	—
Pre TSL XIII	Mezzanine	12,451	6,662	(5,789)	Ca/C	61	28.88	20.84
Pre TSL XIV	Mezzanine	13,421	5,611	(7,810)	Ca/C	59	37.00	32.29
MMCap I	Mezzanine	644	492	(152)	Ca/C	12	62.77	—
MM Comm IX	Mezzanine	6,548	1,658	(4,890)	Ca/CC	27	44.41	—
Total		$49,531	$25,869	$(23,662)				

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities.
On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the three- and six-months ended June 30, 2013 and 2012, 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 June 30, 2013. 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

16

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 309 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 June 30, 2013, 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.

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 which 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 allows 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 June 30, 2013, indicates that no credit related other-than-temporary impairment has occurred on our pooled trust preferred securities during the six-months ended June 30, 2013. Based upon the analysis performed by management, it is probable that seven 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 16 with 0% "Excess Subordination as a Percentage of Current Performing Collateral." For the remaining securities listed in that table, our analysis as of June 30, 2013 indicates it is probable that we will collect all contractual principal and interest payments.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL I and PreTSL IV. Our cash flow analysis as of June 30, 2013, 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 our current book value being below the present value of estimated future principal and interest payments. The excess for each bond of the present value of future cash flows over our current book value ranges from 6% to 158% 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 are

reflected in the following table as increases in cash flows expected to be collected.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	For the Three-Months Ended June 30		For the Six-Months Ended June 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Balance, beginning (a)	$42,991	$44,501	$43,274	$44,736
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)	(292)	(271)	(575)	(506)
Balance, ending	$42,699	$44,230	$42,699	$44,230

(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 second quarter of 2013 and 2012, no other-than-temporary impairment charges were recorded on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of June 30, 2013 and 2012, there are no equity securities in an unrealized loss position.

Note 10 Loans and Allowance for Credit Losses

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

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Commercial, financial, agricultural and other	$1,012,315	$1,019,822
Real estate construction	66,243	87,438
Residential real estate	1,269,830	1,241,565
Commercial real estate	1,280,784	1,273,661
Loans to individuals	600,580	582,218
Total loans and leases net of unearned income	$4,229,752	$4,204,704

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 adversely 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 Bank'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.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Movements between these rating categories provides a predictive measure of credit losses and therefore assists in determining the appropriate level for the loan loss reserves. Category ratings are reviewed each quarter, at which time management analyzes the results, as well as other external statistics and factors related to loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas, loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

The following tables represent our credit risk profile by creditworthiness:

	June 30, 2013					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	$933,092	$52,706	$1,253,021	$1,166,928	$600,411	$4,006,158
Non-Pass						
OAEM	35,231	1,030	4,280	71,017	2	111,560
Substandard	43,992	12,507	12,529	42,839	167	112,034
Doubtful	—	—	—	—	—	—
Total Non-Pass	79,223	13,537	16,809	113,856	169	223,594
Total	$1,012,315	$66,243	$1,269,830	$1,280,784	$600,580	$4,229,752

	December 31, 2012					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	$925,868	$64,353	$1,224,849	$1,119,093	$582,039	$3,916,202
Non-Pass						
OAEM	31,049	925	5,647	82,581	3	120,205
Substandard	62,905	18,638	11,069	71,987	176	164,775
Doubtful	—	3,522	—	—	—	3,522
Total Non-Pass	93,954	23,085	16,716	154,568	179	288,502
Total	$1,019,822	$87,438	$1,241,565	$1,273,661	$582,218	$4,204,704

Portfolio Risks

The credit quality of our loan portfolio represents 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.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Criticized loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate to absorb losses inherent to the portfolio as of June 30, 2013. 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.
Risk factors associated with commercial real estate and construction related loans are monitored closely since this is an area that represents a significant portion of the loan portfolio and has experienced the most stress during the economic downturn.
Age Analysis of Past Due Loans by Segment
The following tables delineate the aging analysis of the recorded investments in past due loans as of June 30, 2013 and December 31, 2012. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

	June 30, 2013						
	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	$814	$34	$289	$20,170	$21,307	$991,008	$1,012,315
Real estate construction	—	—	—	3,073	3,073	63,170	66,243
Residential real estate	5,058	1,028	1,182	10,719	17,987	1,251,843	1,269,830
Commercial real estate	3,116	48	—	25,136	28,300	1,252,484	1,280,784
Loans to individuals	2,639	1,026	1,177	188	5,030	595,550	600,580
Total	$11,627	$2,136	$2,648	$59,286	$75,697	$4,154,055	$4,229,752

	December 31, 2012						
	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	$991	$620	$288	$29,258	$31,157	$988,665	$1,019,822
Real estate construction	2	19	15	9,778	9,814	77,624	87,438
	6,597	2,357	730	9,283	18,967	1,222,598	1,241,565

Residential real estate							
Commercial real estate	3,339	1,389	195	46,023	50,946	1,222,715	1,273,661
Loans to individuals	3,140	934	1,219	176	5,469	576,749	582,218
Total	$14,069	$5,319	$2,447	$94,518	$116,353	$4,088,351	$4,204,704

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 become 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 doubtful.

Impaired Loans

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

Nonperforming loans decreased $34.5 million during the six-months ended June 30, 2013. Contributing to this decrease was the sale of $17.2 million of loans related to a real estate developer in eastern Pennsylvania as well as a $2.5 million commercial real estate loan in Nevada and a $3.5 million construction loan for a Florida condominium project. Also, a $3.8 million hotel resort syndication loan in the state of Washington and a $2.3 million commercial loan to a western Pennsylvania excavation company were returned to accrual status during the first six months of 2013. Additionally, $18.4 million in charge-offs were recognized on three commercial loan relationships during the first half of 2013, including $2.8 million for a commercial real estate loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy, $2.5 million for a commercial real estate loan to a western Pennsylvania student housing project which is in the foreclosure process and $13.1 million for an unsecured commercial loan to a western Pennsylvania real estate developer.

A total of $26.1 million of loans were moved into nonaccrual status during the six-months ended June 30, 2013. Four commercial loan relationships comprise $20.1 million of this total. These relationships include a $7.7 million commercial real estate loan to a real estate management company in western Pennsylvania, a $5.7 million commercial real estate relationship to a western Pennsylvania commercial real estate developer, of which $0.5 million was charged-off and $4.8 million was moved to OREO, all during the six-month period, a $3.6 million commercial relationship to a specialty metal processor in western Pennsylvania, and a $3.1 million commercial relationship with a western Pennsylvania glass manufacturer. In addition to this, $2.0 million in consumer loans which were 150 days or more past due were moved to nonaccrual status. Beginning in the third quarter of 2012, consumer loans are moved to nonaccrual status once they reach 150 days past due, however, in prior periods, these loans were not placed in nonaccrual status if they were well secured and in the process of collection.

The specific allowance for nonperforming loans decreased by $8.1 million at June 30, 2013 compared to December 31, 2012, primarily due to charge-offs of amounts reserved for in prior periods. Unfunded commitments related to nonperforming loans were $1.9 million at June 30, 2013 and after consideration of available collateral related to these commitments, an off balance sheet reserve of $0.1 million was established.

There were no loans held for sale at June 30, 2013 and December 31, 2012; however, sales of loans during the six-months ended June 30, 2013 and 2012 resulted in gains of $0.4 million and $2.9 million, respectively.

Significant nonaccrual loans as of June 30, 2013, include the following:

- $7.7 million commercial real estate loans to a real estate management company in western Pennsylvania. These loans were originated from 2008 to 2012 and were placed in nonaccrual status in the second quarter of 2013. The most recent appraisal for this real estate collateral was completed in the second quarter of 2013.

- $2.8 million, the remaining portion net of reserves, of a $44.1 million unsecured loan to a western Pennsylvania real estate developer. This loan was originated in 2004 and was placed in nonaccrual status in the fourth quarter of 2009. Charge-offs of $28.5 million have been recorded on this loan, of which $13.1 million occurred in the second quarter of 2013.
- $3.6 million commercial real estate and industrial loans to a specialty metal processor in western Pennsylvania. This loan was originated in 2003 and was placed in nonaccrual status in the second quarter of 2013. The assets collateralizing this relationship as well as the appraisal for the real estate collateral were valued in the first quarter of 2013.

- $3.4 million commercial real estate loan to an in-patient facility in western Pennsylvania. This loan was originated in 2008 and placed in nonaccrual status in September 2012. Charge-offs of $2.8 million have been recorded on this loan. The most recent appraisal for the real estate collateral was completed in the fourth quarter of 2012.
- $3.1 million real estate secured loan to a western Pennsylvania nonprofit corporation. This loan was originated in 2008 and placed in nonaccrual status in the second quarter of 2012. The most recent appraisals for the various real estate collateral were completed in the fourth quarter of 2012 and the first quarter of 2013.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of June 30, 2013 and December 31, 2012. 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 its period end allowance position.

	June 30, 2013			December 31, 2012		
	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	$15,069	$16,119		$8,080	$8,983	
Real estate construction	2,474	6,014		8,491	35,555	
Residential real estate	9,017	9,640		7,928	8,401	
Commercial real estate	24,190	30,962		33,259	35,401	
Loans to individuals	257	268		256	256	
Subtotal	51,007	63,003		58,014	88,596	
With an allowance recorded:						
Commercial, financial, agricultural and other	10,707	11,383	6,627	26,532	27,412	10,331
Real estate construction	1,493	1,799	267	2,756	3,087	300
Residential real estate	4,139	4,148	1,943	2,695	2,696	780
Commercial real estate	5,751	6,052	818	17,558	17,896	6,367
Loans to individuals	—	—	—	—	—	—
Subtotal	22,090	23,382	9,655	49,541	51,091	17,778
Total	$73,097	$86,385	$9,655	$107,555	$139,687	$17,778

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Six-Months Ended June 30			
	2013		2012	
	Average recorded investment	Interest Income Recognized	Average recorded investment	Interest Income Recognized
	(dollars in thousands)			
With no related allowance recorded:				
Commercial, financial, agricultural and other	$12,333	$106	$10,291	$21
Real estate construction	6,900	—	7,268	—
Residential real estate	8,732	78	9,219	11
Commercial real estate	27,867	25	26,529	53
Loans to individuals	246	2	—	—
Subtotal	56,078	211	53,307	85
With an allowance recorded:				
Commercial, financial, agricultural and other	20,534	31	19,101	6
Real estate construction	2,017	26	6,865	—
Residential real estate	3,117	12	797	14
Commercial real estate	5,760	52	2,028	—
Loans to individuals	—	—	—	—
Subtotal	31,428	121	28,791	20
Total	$87,506	$332	$82,098	$105

	For the Three-Months Ended June 30			
	2013		2012	
	Average recorded investment	Interest Income Recognized	Average recorded investment	Interest Income Recognized
	(dollars in thousands)			
With no related allowance recorded:				
Commercial, financial, agricultural and other	$12,853	$55	$7,735	$3
Real estate construction	5,538	—	10,118	—
Residential real estate	9,003	41	15,082	6
Commercial real estate	20,865	13	25,696	19
Loans to individuals	246	1	—	—
Subtotal	48,505	110	58,631	28
With an allowance recorded:				
Commercial, financial, agricultural and other	18,486	12	17,441	3
Real estate construction	1,733	14	4,068	—
Residential real estate	3,680	8	644	7
Commercial real estate	5,708	28	1,253	—
Loans to individuals	—	—	—	—
Subtotal	29,607	62	23,406	10
Total	$78,112	$172	$82,037	$38

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.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
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:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	$13,811	$13,037
Nonaccrual status	17,519	50,979
Total	$31,330	$64,016
Commitments		
Letters of credit	$—	$1,574
Unused lines of credit	1,953	—
Total	$1,953	$1,574

At June 30, 2013, troubled debt restructured loans decreased $32.7 million compared to December 31, 2012 and commitments related to troubled debt restructured loans increased $0.4 million for the same period. This decrease in loans is primarily a result of the sale of a $17.2 million loan for a commercial real estate developer in eastern Pennsylvania and the charge-off of $13.1 million related to an unsecured loan to a western Pennsylvania real estate developer.

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

	For the Six-Months Ended June 30, 2013						
		Type of Modification					
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)						
Commercial, financial, agricultural and other	3	$526	$—	$12	$ 538	$472	$100
Residential real estate	22	280	326	1,284	1,890	1,801	562
Commercial real estate	1	—	244	—	244	237	—
Loans to individuals	6	—	34	6	40	29	—
Total	32	$806	$604	$1,302	$ 2,712	$2,539	$662

	For the Six-Months Ended June 30, 2012						
		Type of Modification					
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve

	(dollars in thousands)						
Commercial, financial, agricultural and other	4	$447	$18	$6,029	$ 6,494	$6,494	$2,760
Real estate construction	1	823	—	—	823	815	—
Residential real estate	3	—	97	83	180	133	—
Total	8	$1,270	$115	$6,112	$ 7,497	$7,442	$2,760

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 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 six-months ended June 30, 2013 and 2012, $0.6 million and $0.1 million, respectively, of total rate modifications represent loans with modifications to the rate as well as payment due

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to reamortization. For both 2013 and 2012 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

For the Three-Months Ended June 30, 2013

	Number of Contracts	Type of Modification			Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
		Extend Maturity	Modify Rate	Modify Payments			
	(dollars in thousands)						
Commercial, financial, agricultural and other	1	$100	$—	$—	$ 100	$100	$100
Residential real estate	13	273	113	769	1,155	1,132	562
Loans to individuals	2	—	10	3	13	9	—
Total	16	$373	$123	$772	$ 1,268	$1,241	$662

For the Three-Months Ended June 30, 2012

	Number of Contracts	Type of Modification			Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
		Extend Maturity	Modify Rate	Modify Payments			
	(dollars in thousands)						
Commercial, financial, agricultural and other	4	$447	$18	$6,029	$ 6,494	$6,494	$2,760
Real estate construction	1	823	—	—	823	815	—
Residential real estate	1	—	—	83	83	82	—
Total	6	$1,270	$18	$6,112	$ 7,400	$7,391	$2,760

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 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 three-months ended June 30, 2013 and 2012, $0.1 million and $18 thousand, respectively, of total rate modifications represent loans with modifications to the rate as well as payment due to reamortization. For both 2013 and 2012 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.
A troubled debt restructuring is considered to be in default when a restructured loan is 90 days or more past due. The following table provides information related to restructured loans that were considered to default during the six-months ended June 30:

	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(dollars in thousands)			
Residential real estate	1	$9	—	$—
Loans to individuals	3	9	—	—
Total	4	$18	—	$—

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(dollars in thousands)			
Loans to individuals	2	$5	—	$—

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

	For the Six-Months Ended June 30, 2013						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$19,852	$8,928	$5,908	$22,441	$4,132	$5,926	$67,187
Charge-offs	(14,221)	(755)	(643)	(9,238)	(1,755)	—	(26,612)
Recoveries	264	59	812	108	337	—	1,580
Provision (credit)	10,680	14	362	2,817	1,428	(4)	15,297
Ending Balance	$16,575	$8,246	$6,439	$16,128	$4,142	$5,922	$57,452
Ending balance: individually evaluated for impaired	$6,627	$267	$1,943	$818	$—	$—	$9,655
Ending balance: collectively evaluated for impaired	9,948	7,979	4,496	15,310	4,142	5,922	47,797
Loans:							
Ending balance	1,012,315	66,243	1,269,830	1,280,784	600,580		4,229,752
Ending balance: individually evaluated for impaired	24,592	3,904	10,468	27,862	—		66,826
Ending balance: collectively evaluated for impaired	987,723	62,339	1,259,362	1,252,922	600,580		4,162,926

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Six-Months Ended June 30, 2012						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$18,200	$6,756	$8,237	$18,961	$4,244	$4,836	$61,234
Charge-offs	(3,668)	(340)	(2,454)	(541)	(1,738)	—	(8,741)
Recoveries	275	92	282	186	264	—	1,099
Provision (credit)	4,495	1,493	554	(968)	1,439	1,071	8,084
Ending Balance	$19,302	$8,001	$6,619	$17,638	$4,209	$5,907	$61,676
Ending balance: individually evaluated for impaired	$8,046	$2,747	$431	$510	$—	$—	$11,734
Ending balance: collectively evaluated for impaired	11,256	5,254	6,188	17,128	4,209	5,907	49,942
Loans:							
Ending balance	1,059,675	77,442	1,213,610	1,232,270	576,534		4,159,531
Ending balance: individually evaluated for impaired	31,271	14,915	2,911	31,493	—		80,590
Ending balance: collectively evaluated for impaired	1,028,404	62,527	1,210,699	1,200,777	576,534		4,078,941

	For the Three-Months Ended June 30, 2013						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$20,275	$7,733	$5,749	$18,470	$4,139	$5,896	$62,262
Charge-offs	(13,683)	(671)	(321)	(694)	(767)	—	(16,136)
Recoveries	136	47	89	11	243	—	526
Provision (credit)	9,847	1,137	922	(1,659)	527	26	10,800
Ending Balance	$16,575	$8,246	$6,439	$16,128	$4,142	$5,922	$57,452

For the Three-Months Ended June 30, 2012

	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$18,143	$6,427	$6,702	$19,371	$4,252	$5,837	$60,732
Charge-offs	(1,754)	(150)	(742)	(306)	(797)	—	(3,749)
Recoveries	37	36	149	28	146	—	396
Provision (credit)	2,876	1,688	510	(1,455)	608	70	4,297
Ending Balance	$19,302	$8,001	$6,619	$17,638	$4,209	$5,907	$61,676

Additional discussion related to changes in the allowance for credit losses can be found in Management's Discussion and Analysis of financial results on pages 43 and 49 of this Form 10-Q.

Note 11 Income Taxes

At June 30, 2013 and December 31, 2012, 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 2009 through 2012 were open for examination as of June 30, 2013.

Note 12 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, certain corporate securities, FHLB stock, interest rate derivatives that include 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 are comprised of FHLB stock whose estimated fair value is based on its par value. Additional information on FHLB stock is provided in Note 8, "Other Investments."

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. First Commonwealth values its interest rate swap 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 13, “Derivatives.”

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

We also utilize this approach to estimate our own credit risk on derivative liability positions. In 2013, 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, loans held for sale and 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 U.S. There has been little or no active trading in these securities since 2009; therefore it was 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 9, “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.

Loans held for sale are carried at the lower of cost or fair value with the fair value being the expected sales price of the loan. The estimated fair value of the loans held for sale was determined by calculating the discounted expected future cash flows of the loan. The discount rate applied to the future cash flows was determined based on a risk based expected return and capital structure of potential buyers. If a sales agreement has been executed, the fair value is equal to the sales price.

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

In 2013, we experienced a $0.9 million credit loss as a result of a counterparty's inability to pay the net uncollaterlized position on an interest rate swap. The full amount of this credit loss was provided for in prior periods. Additionally, as the result of deterioration in other counterparties (loan customers) credit quality for certain interest rate derivatives, future amounts previously believed to be collectible under the terms of the interest rate derivative have now been deemed to be uncollectible.

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fair Value (dollars in thousands)	Valuation Technique	Unobservable Inputs	Range / (weighted average)
Pooled Trust Preferred Securities	$25,869	Discounted Cash Flow	Probability of default	0% - 100% (19.32%)
			Prepayment rates	0% - 100% (7.48%)
			Discount rates	6% - 16% (a)
Equities	1,420	Par Value	N/A	N/A
Interest Rate Swap	—	Option model	Counterparty credit risk	6.80% - 9.12% (b)
Impaired Loans	715 (c)	Reserve study	Discount rate	10.00%
			Gas per MCF	$3.67 - $7.60 (d)
			Oil per BBL/d	$90.97 - $106.00 (d)
			NGL per gallon	$1.54 (d)
Other Real Estate Owned	187	Internal Valuation	N/A	N/A

(a) incorporates spread over risk free rate related primarily to credit quality and illiquidity of securities.
(b) represents the range of the credit spread curve used in valuation.
(c) 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.
(d) unobservable inputs are defined as follows: MCF - million cubic feet; BBL/d - barrels per day; NGL - natural gas liquid.

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 higher fair value measurement. Other unobservable inputs in the fair value measurement of impaired loans relate to gas, oil and natural gas prices and increases in these rates 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.

The significant unobservable input used in the fair value measurement of interest rate swaps classified as Level 3 is counterparty credit risk and the resulting range of the credit spread curve used in the valuation. Higher credit risk would result in an increased credit spread, which would reduce the fair value of the interest rate swap.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	$—	$28,036	$—	$28,036
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	978,185	—	978,185
Mortgage-Backed Securities - Commercial	—	126	—	126
Other Government-Sponsored Enterprises	—	265,296	—	265,296
Obligations of States and Political Subdivisions	—	83	—	83
Corporate Securities	—	6,984	—	6,984
Pooled Trust Preferred Collateralized Debt Obligations	—	—	25,869	25,869
Total Debt Securities	—	1,278,710	25,869	1,304,579
Equities	688	—	1,420	2,108
Total Securities Available for Sale	688	1,278,710	27,289	1,306,687
Other Investments	—	33,913	—	33,913
Loans held for sale	—	—	—	—
Other Assets(a)	—	14,121	—	14,121
Total Assets	$688	$1,326,744	$27,289	$1,354,721
Other Liabilities(a)	$—	$14,363	$—	$14,363
Total Liabilities	$—	$14,363	$—	$14,363

(a) Non-hedging interest rate derivatives

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	$—	$31,664	$—	$31,664
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	864,401	—	864,401
Mortgage-Backed Securities - Commercial	—	149	—	149
Other Government-Sponsored Enterprises	—	242,664	—	242,664
Obligations of States and Political Subdivisions	—	86	—	86
Corporate Securities	—	6,991	—	6,991
Pooled Trust Preferred Collateralized Debt Obligations	—	—	23,373	23,373
Total Debt Securities	—	1,145,955	23,373	1,169,328
Equities	555	—	1,420	1,975
Total Securities Available for Sale	555	1,145,955	24,793	1,171,303
Other Investments	—	28,228	—	28,228
Loans Held for Sale	—	—	—	—
Other Assets(a)	—	16,480	—	16,480
Total Assets	$555	$1,190,663	$24,793	$1,216,011

Other Liabilities(a)	$—	$18,726	$—	$18,726
Total Liabilities	$—	$18,726	$—	$18,726

(a) Non-hedging interest rate derivatives

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2013 Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$23,373	$1,420	$—	$—	$24,793
Total gains or losses					
Included in earnings	—	—	383	—	383
Included in other comprehensive income	5,683	—	—	—	5,683
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(20,518)	—	(20,518)
Settlements	(3,187)	—	—	—	(3,187)
Transfers into Level 3	—	—	20,135	—	20,135
Balance, end of period	$25,869	$1,420	$—	$—	$27,289

	2012 Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$22,980	$1,420	$13,412	$—	$37,812
Total gains or losses					
Included in earnings	—	—	2,870	(461)	2,409
Included in other comprehensive income	1,580	—	—	—	1,580
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(15,981)	—	(15,981)
Settlements	(2,768)	—	(301)	—	(3,069)
Transfers into Level 3	—	—	—	461	461
Balance, end of period	$21,792	$1,420	$—	$—	$23,212

For the six-months ended June 30, 2013 and 2012, there were no transfers between fair value Levels 1 and 2. However, $20.1 million of loans were transferred into Level 3 from Level 2 during the six-months ended June 30, 2013 due to the loans being transferred to a held for sale status. The loan sales related to three nonperforming relationships for which this was determined to be the appropriate exit strategy. Completion of the loan sales resulted in a $0.4 million gain for the period. For the six-months ended June 30, 2012, $0.5 million of interest rate swaps were

transferred into Level 3 from Level 2 due to deterioration of the counterparty's credit risk below investment grade. There were no gains or losses included in earnings for the periods presented that are attributable to the change in realized gains (losses) relating to assets held at June 30, 2013 and 2012.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2013				
	Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$24,512	$1,420	$—	$—	$25,932
Total gains or losses					
Included in earnings	—	—	257	—	257
Included in other comprehensive income	3,292	—	—	—	3,292
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(3,779)	—	(3,779)
Settlements	(1,935)	—	—	—	(1,935)
Transfers into Level 3	—	—	3,522	—	3,522
Balance, end of period	$25,869	$1,420	$—	$—	$27,289

	2012				
	Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$24,508	$1,420	$8,076	$—	34,004
Total gains or losses					
Included in earnings	—	—	1,102	—	1,102
Included in other comprehensive income	(688)	—	—	—	(688)
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(9,172)	—	(9,172)
Settlements	(2,028)	—	(6)	—	(2,034)
Transfers from Level 3	—	—	—	—	—
Balance, end of period	$21,792	$1,420	$—	$—	$23,212

For the three-months ended June 30, 2013 and 2012, there were no transfers between fair value Levels 1 and 2. However, $3.5 million of loans were transferred into Level 3 from Level 2 during the three-months ended June 30, 2013 due to the loans being transferred to a held for sale status. The loan sale related to one nonperforming relationship for which this was determined to be the appropriate exit strategy. Completion of the loan sale resulted in a $0.3 million gain for the period. For the three-months ended June 30, 2012, there were no transfers into Level 3 from Level 2. There were no gains or losses included in earnings for the periods presented that are attributable to the change

in realized gains (losses) relating to assets held at June 30, 2013 and 2012.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	$—	$55,903	$7,540	$63,443
Other real estate owned	—	17,116	187	17,303
Total Assets	$—	$73,019	$7,727	$80,746

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	$—	$82,949	$6,827	$89,776
Other real estate owned	—	11,981	247	12,228
Total Assets	$—	$94,930	$7,074	$102,004

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

	For the Three-Months Ended June 30		For the Six-Months Ended June 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Impaired loans	$(10,806)	$(3,086)	$(11,086)	$(3,742)
Other real estate owned	(241)	(163)	(362)	(3,017)
Total losses	$(11,047)	$(3,249)	$(11,448)	$(6,759)

Impaired loans over $0.1 million 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. 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 balances under $250 thousand, we rely on a broker-priced opinion.

The fair value for other real estate owned is determined by either an independent market based appraisal less estimated costs to sell or an executed sales agreement and is classified as Level 2. Other real estate owned has a book cost of $15.6 million as of June 30, 2013 and consisted primarily of a manufacturing plant in northern Pennsylvania, residential real estate in eastern Pennsylvania, and commercial real estate properties in both eastern and western 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 14, "Goodwill." There were no other assets or liabilities measured at fair value on a non-recurring basis during the six-months ended June 30, 2013.

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

Loans held for sale: The fair value of loans held for sale is estimated utilizing a present value of future discounted cash flows of the loan utilizing a risk based expected return to discount the value unless a sales agreement has been executed, in which case the sales price would equal 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.”

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 $0.1 million and $0.2 million at June 30, 2013 and December 31, 2012, respectively. See Note 6, “Commitments and Contingent Liabilities,” for additional information.

Deposit liabilities: Management estimates that the fair value of deposits is based on a market valuation of similar deposits. 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.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	June 30, 2013				
		Fair Value Measurements Using:			
	Carrying Amount	Total	Level 1	Level 2	Level 3
	(dollars in thousands)				
Financial assets					
Cash and due from banks	$77,485	$77,485	$77,485	$—	$—
Interest-bearing deposits	4,497	4,497	4,497	—	—
Securities available for sale	1,306,687	1,306,687	688	1,278,710	27,289
Other investments	33,913	33,913	—	33,913	—
Loans	4,229,752	4,276,416	—	55,903	4,220,513
Financial liabilities					
Deposits	4,733,047	4,664,831	—	4,664,831	—
Short-term borrowings	441,848	441,838	—	441,838	—
Long-term debt	144,615	145,721	—	145,721	—
Subordinated debt	72,167	47,833	—	—	47,833

	December 31, 2012				
		Fair Value Measurements Using:			
	Carrying Amount	Total	Level 1	Level 2	Level 3
	(dollars in thousands)				
Financial assets					
Cash and due from banks	$98,724	$98,724	$98,724	$—	$—
Interest-bearing deposits	4,258	4,258	4,258	—	—
Securities available for sale	1,171,303	1,171,303	555	1,145,955	24,793
Other investments	28,228	28,228	—	28,228	—
Loans	4,204,704	4,245,114	—	82,949	4,162,165
Financial liabilities					
Deposits	4,557,881	4,493,764	—	4,493,764	—
Short-term borrowings	356,227	356,221	—	356,221	—
Long-term debt	174,471	176,178	—	176,178	—
Subordinated debt	105,750	76,735	—	—	76,735

Note 13 Derivatives

First Commonwealth is a party to interest rate derivatives that are not designated as accounting hedges. 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 of given default for all counterparties.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
ITEM 1. Financial Statements and Supplementary Data
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Credit value adjustment	$(284)	$(2,207)
Notional Amount:		
Interest rate derivatives	279,920	223,448
Risk participation agreements	79,411	71,390
Sold credit protection on risk participation agreements	(19,383)	—

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 June 30		For the Six-Months Ended June 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Non-hedging interest rate derivatives:				
Increase in other income	$78	$144	$1,067	$750

Note 14 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 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.
First Commonwealth is considered to be one reporting unit. The carrying amount of goodwill as of June 30, 2013 and December 31, 2012 was $159.9 million. No impairment charges on goodwill or other intangible assets were incurred in 2013 or 2012.
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. An assessment of qualitative factors was completed as of June 30, 2013 and indicated that it is more likely than not that the fair value of First Commonwealth exceeds its carrying amount, therefore the two step goodwill impairment test was not considered necessary. The assessment of qualitative factors incorporated the results of the Step 1 goodwill impairment test completed as of November 30, 2012 as well as macroeconomic factors, industry and market considerations, the company’s overall financial performance, and other company specific events occurring since the completion of the November 30, 2012 test.
As of June 30, 2013, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance, fair value of our assets and liabilities, or stock price could result in impairment,

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

Note 15 New Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This amendment addresses the previously deferred portions of ASU

2011-05 related to reclassifications out of accumulated other comprehensive income. This amendment requires an entity to provide information about amounts reclassified out of accumulated other comprehensive income (“AOCI”) by component. In addition, an entity is required to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of this ASU did not have a material impact on First Commonwealth’s financial condition or results of operations.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and
Results of Operations

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ("First Commonwealth") for the three- and six-months ended June 30, 2013 and 2012, 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. 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 words of similar meaning forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting us, summarizes several factors that could cause our actual results to differ materially from those anticipated or expected in these forward-looking statements:

- continued weakness in economic and business conditions, both nationally and in our markets, which could cause deterioration in credit quality, a further reduction in demand for credit and/or a further decline in real estate values;
- prolonged low interest rates, which could reduce our net interest margin;
- increases in defaults by borrowers and other delinquencies, which could result in increases in our provision for credit losses and related expenses;
- further declines in the market value of investment securities that are considered to be other-than-temporary, which would negatively impact our earnings and capital levels;
- cyber-attacks and fraud, which could disrupt our systems and services, breach the privacy of our customer and business information or result in loss of client assets;
- further declines in the valuations of real estate, which could negatively affect the creditworthiness of our borrowers and the value of collateral securing our loans;
- the assumptions used in calculating the appropriate amount to be placed into our allowance for credit losses may prove to be inaccurate;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- legislative and regulatory changes, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations, subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- changes in accounting standards and compliance requirements may have an adverse affect on our operating results and financial condition;
- competitive pressures among depository and other financial institutions, some of which may have greater financial resources or more attractive product or service offerings, may adversely affect growth or profitability of our products and services; and
- 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 page 41 for the six-months ended June 30, 2013 and 2012.

Results of Operations

Six-Months Ended June 30, 2013 Compared to Six-Months Ended June 30, 2012

Net Income

For the six-months ended June 30, 2013, First Commonwealth had net income of $16.4 million, or $0.17 per share, compared to net income of $23.4 million or $0.22 per share in the six-months ended June 30, 2012. The decrease in net income was caused by declines in net interest and noninterest income as well as a higher provision for credit losses, partially offset by reductions in noninterest expense.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was $93.2 million in the first six months of 2013 compared to $97.4 million for the same period in 2012. Net interest income comprises a majority of our operating revenue (net interest income before the provision plus noninterest income) at 75% and 74% for the six-months ended June 30, 2013 and 2012, respectively.

Net interest margin, on a fully taxable equivalent basis, was 3.40% for the six-months ended June 30, 2013 compared to 3.68% for the six-months ended June 30, 2012. The 28 basis point decline was affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities. The recognition in 2012 of $1.0 million in interest income related to the payoff of a loan that was previously in nonaccrual status also contributed to the decline, increasing the net interest margin by four basis points for the six-months ended June 30, 2012.

The low interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the six-months ended June 30, 2013. New volume spreads for the commercial portfolio resulted from a disciplined pricing approach; however competitive pricing pressures have resulted in reduced spreads on consumer loans, specifically home equity and indirect loans. Also contributing to lower yields on earnings assets is the runoff of existing assets which are earning higher interest rates and growth in the investment portfolio. Growth in earning assets has helped to offset the impact of runoff, as average earning assets for the six-months ended June 30, 2013 increased $200.5 million, or 4%, compared to the comparable period in 2012. However, approximately 44% of the growth in earning assets relates to the investment portfolio, which is earning approximately 200 basis points less than growth in the loan portfolio. Investment portfolio purchases during the six-months ended June 30, 2013, have been primarily in mortgage-related assets with approximate durations of 36-48 months. The majority of these investments have monthly principal payments which will provide for reinvestment opportunities as interest rates rise. It is expected that the challenges to the net interest margin will continue as $2.8 billion in interest-sensitive assets either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.82% for the six-months ended June 30, 2013, a decrease of 47 basis points from the 4.29% yield for the same period in 2012. This decline can be attributed to the repricing of our adjustable rate assets in a declining interest rate environment as well as lower interest rates available on new investments and loans. Reductions in the cost of interest-bearing liabilities partially offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.53% for the six-months ended June 30, 2013, compared to 0.76% for the same period in 2012.

Comparing the six-months ended June 30, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $7.0 million. The lower yield on interest-earning assets adversely impacted net interest income by $12.7 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $5.7 million. 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 deposit and borrowed funds, loan growth and increasing our investment volumes within established interest rate risk management guidelines. As part of these strategies, on April 1, 2013, the Company redeemed $32.5 million in issued and outstanding 9.50% mandatorily redeemable capital securities issued by First Commonwealth Capital Trust I and replaced the funds with lower cost funding alternatives.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets tempered the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities

positively impacted net interest income by $2.8 million in the six-months ended June 30, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $3.9 million in interest income, while volume changes primarily attributed to long term borrowings increased interest expense by $1.1 million. Positively affecting net interest income was a $74.5 million increase in average net free funds at June 30, 2013 as compared to June 30, 2012. 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 in noninterest-bearing demand deposit average balances as a result of marketing promotions aimed at attracting new and retaining existing customers. Additionally, higher costing time deposits continue to mature and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the six-months ended June 30, 2013 decreased $5.1 million compared to the comparable period in 2012. The positive change in deposit mix is expected to continue as $700.8 million in certificates of deposits either mature or reprice over the next twelve months.

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 six-months ended June 30:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	$102,742	$111,328
Adjustment to fully taxable equivalent basis	2,058	2,307
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	104,800	113,635
Interest expense	11,626	16,240
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$93,174	$97,395

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

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

	2013				2012			
	Average Balance	Income / Expense (a)	Yield or Rate		Average Balance	Income / Expense (a)	Yield or Rate	
	(dollars in thousands)							
Assets								
Interest-earning assets:								
Interest-bearing deposits with banks	$3,149	$3	0.19	%	$3,580	$2	0.11	%
Tax-free investment securities (e)	85	3	7.40		454	16	7.09	
Taxable investment securities	1,281,409	14,494	2.28		1,192,914	16,868	2.84	
Loans, net of unearned income (b)(c)	4,242,800	90,300	4.29		4,129,977	96,749	4.71	
Total interest-earning assets	5,527,443	104,800	3.82		5,326,925	113,635	4.29	
Noninterest-earning assets:								
Cash	71,883				74,069			
Allowance for credit losses	(66,572)				(64,203)			
Other assets	568,260				586,509			
Total noninterest-earning assets	573,571				596,375			
Total Assets	$6,101,014				$5,923,300			
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits (d)	$677,879	$130	0.04	%	$636,382	$158	0.05	%
Savings deposits (d)	1,940,790	1,682	0.17		1,928,454	2,299	0.24	
Time deposits	1,179,196	6,386	1.09		1,184,338	9,433	1.60	
Short-term borrowings	400,827	507	0.26		378,407	506	0.27	
Long-term debt	250,569	2,921	2.35		195,614	3,844	3.95	
Total interest-bearing liabilities	4,449,261	11,626	0.53		4,323,195	16,240	0.76	
Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	861,486				780,611			
Other liabilities	48,064				50,519			
Shareholders' equity	742,203				768,975			
Total noninterest-bearing funding sources	1,651,753				1,600,105			
Total Liabilities and Shareholders' Equity	$6,101,014				$5,923,300			
Net Interest Income and Net Yield on Interest-Earning Assets		$93,174	3.40	%		$97,395	3.68	%

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.
(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
(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.

(e) Yield for six-months ended June 30, 2013 calculated using fully taxable equivalent interest income of $3,112.

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

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the six-months ended June 30, 2013 compared with June 30, 2012:

	Analysis of Year-to-Year Changes in Net Interest Income		
	Total Change	Change Due To Volume	Change Due To Rate (a)
	(dollars in thousands)		
Interest-earning assets:			
Interest-bearing deposits with banks	$1	$—	$1
Tax-free investment securities	(13)	(13)	—
Taxable investment securities	(2,374)	1,250	(3,624)
Loans	(6,449)	2,642	(9,091)
Total interest income (b)	(8,835)	3,879	(12,714)
Interest-bearing liabilities:			
Interest-bearing demand deposits	(28)	10	(38)
Savings deposits	(617)	15	(632)
Time deposits	(3,047)	(41)	(3,006)
Short-term borrowings	1	30	(29)
Long-term debt	(923)	1,079	(2,002)
Total interest expense	(4,614)	1,093	(5,707)
Net interest income	$(4,221)	$2,786	$(7,007)

(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 allowance for credit losses needed or 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 six-months ended June 30:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$10,680	70 %	$4,495	56 %
Real estate construction	14	—	1,493	18
Residential real estate	362	2	554	7
Commercial real estate	2,817	19	(968)	(12)
Loans to individuals	1,428	9	1,439	18
Unallocated	(4)	—	1,071	13
Total	$15,297	100 %	$8,084	100 %

The provision for credit losses for the six-months ended June 30, 2013 increased in comparison to the six-months ended June 30, 2012, by $7.2 million or 89%. The majority of the 2013 provision expense, or $13.5 million of the $15.3 million, related to two commercial borrowers. Deterioration in the value of certain assets of a local real estate developer, for which net equity is our expected repayment source, resulted in additional provision expense of $10.4 million and a related charge-off of $13.1 million. The carrying value of this loan is now $5.5 million, with a specific reserve of $2.7 million. In addition, two non-accrual commercial real estate loans which were sold in the first quarter of 2013, required a combined charge-off and related provision expense of $3.1 million. These loans relate to a $15.5 million loan secured by an apartment building in eastern

43

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

Pennsylvania and a $1.7 million loan secured by mixed use property in eastern Pennsylvania. Also impacting provision expense during 2013, is the relief of $0.9 million in specific reserves related to a $2.5 million loan to a western Pennsylvania in-patient facility as a result of the pay-off of the loan in early July 2013 and the relief of $0.4 million in specific reserves related to a western Pennsylvania excavation company which was returned to accrual status during the second quarter of 2013.

Credit losses in the first six months of 2013, exceeded the provision for credit losses due to charge-offs taken on two nonaccrual loans for which the specific reserves were provided for in 2012. This includes $2.8 million charge-off taken on a loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy and a $2.5 million charge-off for a western Pennsylvania student housing project for which the bank has begun the foreclosure process.

The allowance for credit losses was $57.5 million, or 1.36%, of total loans outstanding at June 30, 2013, compared to $67.2 million, or 1.60%, at December 31, 2012 and $61.7 million, or 1.48%, at June 30, 2012. The decline compared to December 31, 2012, can be attributed to a $64.9 million, or 22%, decrease in criticized loans, which includes a reduction of $34.5 million, or 32%, in nonperforming loans. Nonperforming loans as a percentage of total loans decreased to 1.73% at June 30, 2013 from 2.56% at December 31, 2012 and 2.04% as of June 30, 2012. The allowance to nonperforming loan ratio was 79%, 62% and 73% as of June 30, 2013, December 31, 2012, and June 30, 2012, respectively.

Below is an analysis of the consolidated allowance for credit losses for the six-months ended June 30, 2013 and 2012 and the year-ended December 31, 2012:

	June 30, 2013	June 30, 2012	December 31, 2012
	(dollars in thousands)		
Balance, beginning of period	$67,187	$61,234	$61,234
Loans charged off:			
Commercial, financial, agricultural and other	14,221	3,668	5,207
Real estate construction	755	340	3,601
Residential real estate	643	2,454	3,828
Commercial real estate	9,238	541	851
Loans to individuals	1,755	1,738	3,482
Total loans charged off	26,612	8,741	16,969
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	264	275	443
Real estate construction	59	92	582
Residential real estate	812	282	422
Commercial real estate	108	186	410
Loans to individuals	337	264	521
Total recoveries	1,580	1,099	2,378
Net credit losses	25,032	7,642	14,591
Provision charged to expense	15,297	8,084	20,544
Balance, end of period	$57,452	$61,676	$67,187

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

Noninterest Income

The following table presents the components of noninterest income for the six-months ended June 30:

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Income:				
Trust income	$3,271	$3,149	$122	4 %
Service charges on deposit accounts	7,216	7,239	(23)	—
Insurance and retail brokerage commissions	2,801	3,094	(293)	(9)
Income from bank owned life insurance	2,860	2,904	(44)	(2)
Card related interchange income	6,678	6,399	279	4
Other income	5,215	6,382	(1,167)	(18)
Subtotal	28,041	29,167	(1,126)	(4)
Net securities gains	8	—	8	N/A
Gain on sale of assets	700	3,559	(2,859)	(80)
Derivatives mark to market	1,067	750	317	42
Total noninterest income	$29,816	$33,476	$(3,660)	(11)%

Noninterest income, excluding net securities gains, gain on sale of assets and the derivative mark to market adjustment decreased $1.1 million, or 4%, for the first six months of 2013 compared to 2012. The most notable change in this total is the $1.2 million decrease in the other income category, which is largely attributable to a $0.9 million decline in income from other real estate owned. The change in other real estate owned income is primarily the result of rental income received in 2012 from a western Pennsylvania office complex foreclosed on at the end of the first quarter of 2011 and sold in March 2012.

Total noninterest income decreased $3.7 million in comparison to the six-months ended June 30, 2012. The most significant change in noninterest income, in addition to the aforementioned changes, was a $2.9 million decrease in gain on sale of assets. The higher level of gains in 2012 is primarily the result of a $2.9 million gain recognized on the sale of two commercial real estate loans in the first half of 2012 compared to gains of $0.4 million recognized on the sale of loans in the first half of 2013.

Noninterest Expense

The following table presents the components of noninterest expense for the six-months ended June 30:

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Expense:				
Salaries and employee benefits	$43,290	$44,121	$(831)	(2)%
Net occupancy expense	6,856	6,707	149	2
Furniture and equipment expense	6,569	6,208	361	6
Data processing expense	3,019	3,359	(340)	(10)
Pennsylvania shares tax expense	2,707	2,693	14	1
Intangible amortization	655	742	(87)	(12)
Collection and repossession expense	2,002	3,369	(1,367)	(41)
Other professional fees and services	1,917	2,139	(222)	(10)
FDIC insurance	2,134	2,499	(365)	(15)
Other operating expenses	12,144	12,974	(830)	(6)
Subtotal	81,293	84,811	(3,518)	(4)
Loss on sale or write-down of assets	530	3,789	(3,259)	(86)
Loss on redemption of subordinated debt	1,629	—	1,629	N/A

Total noninterest expense	$83,452	$88,600	$(5,148)	(6)%

45

Noninterest expense, excluding loss on sale or write-down of assets and loss on redemption of subordinated debt, decreased $3.5 million, or 4%, for the the first six months of 2013 compared to 2012. The 2013 decrease is largely attributable to lower levels of expenses related to problem credits. Specifically, collection and repossession expense declined $1.4 million, or 41%, as a result of resolving several large credits during the past twelve months.

Salaries and benefits expense decreased $0.8 million in 2013 despite a $0.8 million increase in hospitalization expense, primarily due to a $0.5 million decrease in severance costs and a $0.4 million decrease in expense related to the employee stock ownership plan ("ESOP"). The borrowing that leveraged the shares of the ESOP was paid off in November 2012 and the plan was terminated in December of 2012. As a result, there is no longer any compensation expense related to the plan.

Data processing expense decreased $0.3 million as a result of a 2013 change in vendors which provided savings of $0.4 million in ATM/debit card related expenses.

The $0.4 million decrease in FDIC insurance can be attributed to improved credit metrics used when determining assessment rates.

Other operating expenses decreased $0.8 million in 2013, as a result a $0.8 million decrease in the reserve for off-balance sheet commitments as well as a $0.4 million decrease in both advertising and contributions. These decreases were partially offset by an $0.8 million reserve established for resolution of a 1099 reporting issue.

Additionally, the decline in loss on sale or write-down of assets is primarily attributable to the $2.8 million write-down on one OREO property recognized in the first half of 2012. There were no material OREO write-downs recognized in the first half of 2013.

As a result of the April 1, 2013 early redemption of $32.5 million in redeemable capital securities issued by First Commonwealth Capital Trust I, a loss of $1.6 million was recognized. This loss includes a $1.1 million prepayment penalty and $0.5 million of unamortized deferred issuance costs.

Income Tax

The provision for income taxes decreased $2.7 million for the six-months ended June 30, 2013, compared to the corresponding period in 2012. The lower provision for income taxes was primarily the result of a $9.7 million decline in the level of net income before tax.

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 six-months ended June 30, 2013 and 2012.

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 reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 26.2% and 26.7% for the six-months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, our deferred tax assets totaled $70.0 million. Based on our evaluation as of June 30, 2013, we determined that it is more likely than not that all of these assets will be realized. As a result, we did not record a valuation allowance against these assets. 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 June 30, 2013 Compared to Three-Months Ended June 30, 2012

Net Income

For the three-months ended June 30, 2013, First Commonwealth had net income of $5.8 million, or $0.06 per share, compared to net income of $12.3 million or $0.12 per share in the three-months ended June 30, 2012. The decrease in net income was caused by declines in net interest and noninterest income as well as a higher provision for credit losses.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was $46.7 million in the three-months ended June 30, 2013 compared to $48.0 million for the same period in 2012.

Net interest margin, on a fully taxable equivalent basis, was 3.35% for the three-months ended June 30, 2013 compared to 3.61% for the three-months ended June 30, 2012. The 26 basis point decline in the net interest margin was affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

Despite a disciplined pricing approach for maintaining the level of new volume spreads on commercial loans, runoff of existing assets earning higher interest rates has continued to provide for lower yields on earning assets. Additionally, competitive pricing pressures on consumer loans has resulted in narrowing spreads for these loans. Growth in earning assets has helped to offset the impact of runoff, as average earning assets for the three-months ended June 30, 2013 increased $238.2 million, or 4%, compared to the comparable period in 2012. However, approximately 51% of the growth in earning assets relates to the investment portfolio, which is earning approximately 200 basis points less than the growth in the loan portfolio.

The taxable equivalent yield on interest-earning assets was 3.73% for the three-months ended June 30, 2013, a decrease of 46 basis points from the 4.19% yield for the same period in 2012. This decline can be attributed to the repricing of our adjustable rate assets in a declining rate environment as well as lower interest rates available on new investments and loans. Reductions in the cost of interest-bearing liabilities partially offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.47% for the three-months ended June 30, 2013, compared to 0.72% for the same period in 2012.

Comparing the three-months ended June 30, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $2.8 million. The lower yield on interest-earning assets adversely impacted net interest income by $6.0 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $3.1 million. 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 deposit and borrowed funds, loan growth and increasing our investment volumes within established interest rate risk management guidelines. As part of these strategies, on April 1, 2013, the Company redeemed $32.5 million in issued and outstanding 9.50% mandatorily redeemable capital securities issued by First Commonwealth Capital Trust I and replaced the funds with lower cost funding alternatives.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets tempered the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $1.6 million in the three-months ended June 30, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $2.2 million in interest income, while volume changes primarily attributed to the mix of deposits increased interest expense by $0.6 million.

Positively affecting net interest income was a $49.4 million increase in average net free funds at June 30, 2013 as compared to June 30, 2012. 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 in noninterest-bearing demand deposit average balances as a result of marketing promotions aimed at attracting new and retaining existing customers. Additionally, higher costing time deposits continue to mature and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the three-months ended June 30, 2013 increased $51.4 million, or 4%, compared to the comparable period in 2012 due to the purchase of brokered certificates of deposit which provide a lower costing funding source. The positive change in deposit mix is expected to continue as $700.8 million in certificates of deposits either mature or reprice over the next twelve months.

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 June 30:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	$50,981	$54,712
Adjustment to fully taxable equivalent basis	1,030	1,090
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	52,011	55,802
Interest expense	5,283	7,794
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$46,728	$48,008

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

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 June 30:

	2013				2012			
	Average Balance	Income / Expense (a)	Yield or Rate		Average Balance	Income / Expense (a)	Yield or Rate	
	(dollars in thousands)							
Assets								
Interest-earning assets:								
Interest-bearing deposits with banks	$2,954	$ 2	0.27	%	$3,384	$ 1	0.12	%
Tax-free investment securities (e)	84	2	7.41		452	8	7.12	
Taxable investment securities	1,327,714	7,349	2.22		1,207,053	8,298	2.76	
Loans, net of unearned income (b)(c)	4,262,773	44,658	4.20		4,144,470	47,495	4.61	
Total interest-earning assets	5,593,525	52,011	3.73		5,355,359	55,802	4.19	
Noninterest-earning assets:								
Cash	73,123				74,465			
Allowance for credit losses	(64,333)				(63,948)			
Other assets	569,028				579,371			
Total noninterest-earning assets	577,818				589,888			
Total Assets	$6,171,343				$5,945,247			
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits (d)	$689,644	$ 65	0.04	%	$648,244	$ 61	0.04	%
Savings deposits (d)	1,940,868	762	0.16		1,905,168	994	0.21	
Time deposits	1,216,403	3,180	1.05		1,165,009	4,588	1.58	
Short-term borrowings	445,249	287	0.26		422,361	279	0.27	
Long-term debt	221,310	989	1.79		183,890	1,872	4.09	
Total interest-bearing liabilities	4,513,474	5,283	0.47		4,324,672	7,794	0.72	
Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	873,827				796,555			
Other liabilities	46,847				50,724			
Shareholders' equity	737,195				773,296			
Total noninterest-bearing funding sources	1,657,869				1,620,575			
Total Liabilities and Shareholders' Equity	$6,171,343				$5,945,247			
Net Interest Income and Net Yield on Interest-Earning Assets		$ 46,728	3.35	%		$ 48,008	3.61	%

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.
(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
(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.

(e) Yield for three months ended June 30, 2013 calculated using fully taxable equivalent interest income of $1,555.

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

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three-months ended June 30, 2013 compared with June 30, 2012:

	Analysis of Year-to-Year Changes in Net Interest Income		
	Total Change	Change Due To Volume	Change Due To Rate (a)
	(dollars in thousands)		
Interest-earning assets:			
Interest-bearing deposits with banks	$1	$—	$1
Tax-free investment securities	(6)	(7)	1
Taxable investment securities	(949)	828	(1,777)
Loans	(2,837)	1,356	(4,193)
Total interest income (b)	(3,791)	2,177	(5,968)
Interest-bearing liabilities:			
Interest-bearing demand deposits	4	4	—
Savings deposits	(232)	19	(251)
Time deposits	(1,408)	202	(1,610)
Short-term borrowings	8	15	(7)
Long-term debt	(883)	381	(1,264)
Total interest expense	(2,511)	621	(3,132)
Net interest income	$(1,280)	$1,556	$(2,836)

(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 allowance for credit losses needed or 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 June 30:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$9,847	91 %	$2,876	67 %
Real estate construction	1,137	11	1,688	39
Residential real estate	922	8	510	12
Commercial real estate	(1,659)	(15)	(1,455)	(34)
Loans to individuals	527	5	608	14
Unallocated	26	—	70	2
Total	$10,800	100 %	$4,297	100 %

The provision for credit losses for the three-months ended June 30, 2013 increased in comparison to the three-months ended June 30, 2012, by $6.5 million or 151%. The majority of the provision for credit losses during the three-months ended June 30, 2013, or $10.1 million of the $10.8 million, was the result of one commercial borrower. As previously noted, deterioration in the value of certain assets of a local real estate developer, for which net equity is our expected repayment source, resulted in additional provision expense of $10.1 million during the three-months ended June 30, 2013. Also impacting provision expense is the relief of $0.3 million in specific reserves related to a $2.5 million loan to a western Pennsylvania in-patient facility resulting from the pay-off of the loan in early July 2013 and the relief of $0.4 million in specific reserves related to a western

Pennsylvania excavation company. Credit losses in the second quarter exceeded the provision for credit losses due to the $10.1 million impact noted above.

Below is an analysis of the consolidated allowance for credit losses for the three-months ended June 30, 2013 and 2012 and March 31, 2013:

	June 30, 2013	June 30, 2012	March 31, 2013
	(dollars in thousands)		
Balance, beginning of period	$62,262	$60,732	$67,187
Loans charged off:			
Commercial, financial, agricultural and other	13,683	1,754	538
Real estate construction	671	150	84
Residential real estate	321	742	322
Commercial real estate	694	306	8,544
Loans to individuals	767	797	988
Total loans charged off	16,136	3,749	10,476
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	136	37	128
Real estate construction	47	36	12
Residential real estate	89	149	723
Commercial real estate	11	28	97
Loans to individuals	243	146	94
Total recoveries	526	396	1,054
Net credit losses	15,610	3,353	9,422
Provision charged to expense	10,800	4,297	4,497
Balance, end of period	$57,452	$61,676	$62,262

Noninterest Income

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

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Income:				
Trust income	$1,608	$1,607	$1	— %
Service charges on deposit accounts	3,815	3,737	78	2
Insurance and retail brokerage commissions	1,384	1,670	(286)	(17)
Income from bank owned life insurance	1,432	1,459	(27)	(2)
Card related interchange income	3,490	3,285	205	6
Other income	2,695	2,749	(54)	(2)
Subtotal	14,424	14,507	(83)	(1)
Net securities gains	4	—	4	N/A
Gain on sale of assets	425	1,444	(1,019)	(71)
Derivatives mark to market	78	145	(67)	(46)
Total noninterest income	$14,931	$16,096	$(1,165)	(7)%

Noninterest income, excluding net securities gains, gain on sale of assets and the derivative mark to market adjustment decreased $0.1 million, or 1%, for the three-months ended June 30, 2013 compared to the same period in 2012.

Total noninterest income decreased $1.2 million in comparison to the three-months ended June 30, 2012. The most significant changes in noninterest income, in addition to the aforementioned changes, was a $1.0 million decrease in gain on sale of assets. The higher level of gains in 2012 is primarily the result of a $1.1 million gain recognized on the sale of a loan in April 2012 compared to a $0.3 million gain recognized on the sale of loans in June 2013.

Noninterest Expense

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

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Expense:				
Salaries and employee benefits	$21,497	$22,363	$(866)	(4)%
Net occupancy expense	3,221	3,303	(82)	(2)
Furniture and equipment expense	3,297	3,024	273	9
Data processing expense	1,503	1,796	(293)	(16)
Pennsylvania shares tax expense	1,517	1,510	7	—
Intangible amortization	297	371	(74)	(20)
Collection and repossession expense	851	670	181	27
Other professional fees and services	948	940	8	1
FDIC insurance	1,084	1,262	(178)	(14)
Other operating expenses	5,811	6,109	(298)	(5)
Subtotal	40,026	41,348	(1,322)	(3)
Loss on sale or write-down of assets	343	500	(157)	(31)
Loss on redemption of subordinated debt	1,629	—	1,629	N/A
Total noninterest expense	$41,998	$41,848	$150	— %

Noninterest expense before loss on sale or write-down of assets and the loss on redemption of subordinated debt decreased $1.3 million, or 3%, when comparing the three-months ended June 30, 2013 to the same period in 2012 primarily due to a $0.9 million decrease in salaries and employee benefits expense.

Salaries and benefits expense decreased $0.9 million in the three-months ended June 30, 2013 as the result of a $0.6 million decrease in severance costs and a $0.2 million decrease in expense related to the ESOP benefit. As previously noted, there was no compensation expense in 2013 related to the ESOP because the plan was terminated in December 2012.

The $0.3 million decrease in data processing expense can be attributed to savings in ATM/debit card related expenses as the result of a vendor change in 2013.

Offsetting the reduced levels of non-interest expense noted above, is the recognition of a $1.6 million loss on the redemption of subordinated debt during the three-months ended June 30, 2013. This debt was redeemed on April 1, 2013 and the loss recorded reflects the premium paid at redemption and the recognition of unamortized deferred issuance costs.

Income Tax

The provision for income taxes decreased $2.5 million for the three-months ended June 30, 2013, compared to the corresponding period in 2012. The lower provision for income taxes was primarily the result of a $9.0 million decline in the level of net income before tax.

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 June 30, 2013 and 2012.

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 reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 25.7% and 27.0% for the three-months ended June 30, 2013 and 2012, respectively.

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 six months of 2013, liquidity provided from the $175.2 million increase in deposits and proceeds of $20.3 million from the sale of loans provided funds to originate loans and purchase investment securities. 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 ("FRB") of Cleveland 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 June 30, 2013, our maximum borrowing capacity under this program was $921.1 million and as of that date there was $297.8 million outstanding. We also participate in 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 June 30, 2013, our outstanding certificates of deposits from this program have an average weighted rate of 0.27% and an average original term of 209 days.

An additional source of liquidity is the FRB Borrower-in-Custody of Collateral program which enables us to pledge certain loans, not being used as collateral at the FHLB, as collateral for borrowings at the FRB. At June 30, 2013, the borrowing capacity under this program totaled $809.5 million and there were no amounts outstanding.

As of June 30, 2013, our maximum borrowing capacity at the FHLB of Pittsburgh was $1.4 billion and as of that date amounts used against this capacity included $454.3 million in outstanding borrowings and $30.8 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

First Commonwealth Financial Corporation has an unsecured $15.0 million line of credit with another financial institution and as of June 30, 2013 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:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Noninterest-bearing demand deposits	$900,940	$883,269
Interest-bearing demand deposits	101,505	97,963
Savings deposits	2,535,592	2,543,990
Time deposits	1,195,010	1,032,659
Total	$4,733,047	$4,557,881

During the first six months of 2013, total deposits increased $175.2 million due to a $162.4 million increase in time deposits, offset by a decrease of $4.9 million in interest-bearing and savings deposits. The increase in time deposits is due to growth in wholesale certificates of deposits of $227.6 million. These deposits offer a more attractive source of funding as they generally have a lower cost of funds than traditional certificates of deposit.

Market Risk

The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate sensitive assets to rate sensitive liabilities repricing within a one-year period was 0.73 and 0.76 at June 30, 2013 and December 31, 2012, 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. 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

52

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. Following is the gap analysis as of June 30, 2013 and December 31, 2012:

	June 30, 2013					
	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	$1,980,698	$207,799	$317,325	$2,505,822	$1,383,428	$281,216
Investments	65,151	78,751	173,868	317,770	630,920	382,178
Other interest-earning assets	4,497	—	—	4,497	—	—
Total interest-sensitive assets (ISA)	2,050,346	286,550	491,193	2,828,089	2,014,348	663,394
Certificates of Deposit	396,964	98,958	204,920	700,842	485,706	8,462
Other deposits	2,637,097	—	—	2,637,097	—	—
Borrowings	514,129	115	7,712	521,956	131,150	5,524
Total interest-sensitive liabilitites (ISL)	3,548,190	99,073	212,632	3,859,895	616,856	13,986
Gap	$(1,497,844)	$187,477	$278,561	$(1,031,806)	$1,397,492	$649,408
ISA/ISL	0.58	2.89	2.31	0.73	3.27	47.43
Gap/Total assets	24.34 %	3.05 %	4.53 %	16.77 %	22.71 %	10.55 %

	December 31, 2012					
	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	$1,950,002	$222,705	$297,530	$2,470,237	$1,436,472	$203,477
Investments	61,914	78,904	142,411	283,229	579,320	328,546
Other interest-earning assets	4,258	—	—	4,258	—	—
Total interest-sensitive assets (ISA)	2,016,174	301,609	439,941	2,757,724	2,015,792	532,023
Certificates of Deposit	208,096	176,556	126,490	511,142	512,040	9,477
Other deposits	2,641,953	—	—	2,641,953	—	—
Borrowings	428,545	29,703	230	458,478	138,652	39,318
Total interest-sensitive liabilitites (ISL)	3,278,594	206,259	126,720	3,611,573	650,692	48,795
Gap	$(1,262,420)	$95,350	$313,221	$(853,849)	$1,365,100	$483,228
ISA/ISL	0.61	1.46	3.47	0.76	3.10	10.90
Gap/Total assets	21.06 %	1.59 %	5.23 %	14.24 %	22.77 %	8.06 %

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 versus if rates remained unchanged utilizing a flat balance sheet.

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
June 30, 2013	$(8,366)	$(4,473)	$(27)	$855
December 31, 2012	(8,204)	(4,767)	459	2,153

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

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 decline in interest rate 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 six-months ended June 30, 2013 and 2012, the cost of our interest-bearing liabilities averaged 0.53% and 0.76%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.82% and 4.29%, respectively.

The ALCO is responsible for the identification and management of interest rate risk exposure. As such, the ALCO continuously evaluates strategies to manage our exposure to interest rate fluctuations.

Asset/liability models require certain assumptions be made, such as prepayment rates on earning assets and pricing impact 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, delinquency and other relevant factors. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses.

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 six months of 2013, thirty-two loans totaling $2.7 million were identified as troubled debt restructuring. Please refer to Note 10, "Loans and Allowance for Credit Losses," for additional information on troubled debt restructuring.

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 in 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 in 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 specifically assigned allowance for loan losses are recognized where appropriate.

The allowance for credit losses was $57.5 million at June 30, 2013 or 1.36% of total loans outstanding compared to 1.60% reported at December 31, 2012 and 1.48% at June 30, 2012. The decline in the June 30, 2013 ratio when compared to December 31, 2012 can be attributed to an $8.1 million decline in specific reserves on nonperforming loans, primarily due to charge-offs taken during quarter. In addition, nonperforming balances decreased $34.5 million during the 2013. Criticized loans totaled $223.6 million at June 30, 2013 and represented 5% of the loan portfolio. The level of criticized loans decreased as of June 30, 2013 when compared to December 31, 2012, by $64.9 million, or

22%. Delinquency on accruing loans for the same period decreased $5.4 million, or 25%.

The allowance for credit losses as a percentage of nonperforming loans was 78.60% as of June 30, 2013 compared to 62.47% at December 31, 2012 and 72.61% at June 30, 2012. The amount of allowance related to 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 allocations of $9.7 million related to nonperforming loans covering 13% of the total nonperforming balance.

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

Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at June 30, 2013.

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

	June 30 2013			2012			December 31, 2012		
	(dollars in thousands)								
Nonperforming Loans:									
Loans on nonaccrual basis	$41,767			$33,457			$43,539		
Troubled debt restructured loans on nonaccrual basis	17,519			45,235			50,979		
Troubled debt restructured loans on accrual basis	13,811			6,251			13,037		
Total nonperforming loans	$73,097			$84,943			$107,555		
Loans past due in excess of 90 days and still accruing	$2,648			$10,587			$2,447		
Other real estate owned	$15,603			$19,140			$11,262		
Loans outstanding at end of period	$4,229,752			$4,159,531			$4,204,704		
Average loans outstanding	$4,242,800		(a)	$4,129,977		(a)	$4,165,292		(b)
Nonperforming loans as a percentage of total loans	1.73	%		2.04	%		2.56	%	
Provision for credit losses	$15,297		(a)	$8,084		(a)	$20,544		(b)
Allowance for credit losses	$57,452			$61,676			$67,187		
Net charge-offs	$25,032		(a)	$7,642		(a)	$14,591		(b)
Net charge-offs as a percentage of average loans outstanding (annualized)	1.19	%		0.37	%		0.35	%	
Provision for credit losses as a percentage of net charge-offs	61.11	%	(a)	105.78	%	(a)	140.80	%	(b)
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.36	%		1.48	%		1.60	%	
Allowance for credit losses as a percentage of nonperforming loans	78.60	%		72.61	%		62.47	%	

(a) For the six-month period ended.
(b) For the twelve-month period ended.

Nonperforming loans decreased $34.5 million to $73.1 million at June 30, 2013 compared to $107.6 million at December 31, 2012. Contributing to this decrease was $18.4 million in charge-offs recognized on three commercial loan relationships, including $2.8 million for a commercial real estate loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy, $2.5 million for a commercial real estate loan to a western Pennsylvania student housing project which is in the foreclosure process and $13.1 million for an unsecured commercial loan to a western Pennsylvania real estate developer. Additionally, several nonaccrual loans were sold in 2013, including a $17.2 million loan to a real estate developer in eastern Pennsylvania, a $2.5 million commercial real estate loan in Nevada and a $3.5 million construction loan for a Florida condominium project. Also, a $3.8 million hotel resort syndication loan in the state of Washington and a $2.3 million commercial loan to a western Pennsylvania

excavation company were returned to accrual status during the first six months of 2013.

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

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

	June 30, 2013			December 31, 2012		
	Amount	%		Amount	%	
	(dollars in thousands)					
Commercial, financial, agricultural and other	$1,012,315	24	%	$1,019,822	24	%
Real estate construction	66,243	2		87,438	2	
Residential real estate	1,269,830	30		1,241,565	30	
Commercial real estate	1,280,784	30		1,273,661	30	
Loans to individuals	600,580	14		582,218	14	
Total loans and leases net of unearned income	$4,229,752	100	%	$4,204,704	100	%

During the six-months ended June 30, 2013, loans increased $25.0 million or 1% compared to balances outstanding at December 31, 2012. During 2013, commercial loan growth has been impacted by actions taken to derisk the balance sheet, including the previously mentioned charge-offs and loans sales as well as decisions to not renew some large commercial real estate credits that were outside our market area or were experiencing deteriorating credit quality. Increases in the residential real estate portfolio are the result of continued growth of our home equity installment product, while loans to individuals increased due to growth in indirect auto lending.

Net charge-offs for the six-months ended June 30, 2013 totaled $25.0 million compared to $7.6 million for the six-months ended June 30, 2012. As previously noted, the most significant charge-offs during the six-months ended June 30, 2013 were $18.4 million charge-offs recognized on three commercial loans and a $3.1 million charge-off recognized upon transfer of two loans to held for sale. During the six-months ended June 30, 2012, the most significant charge-off was a $1.2 million charge taken on a $2.0 million commercial loan.

	For the Six-Months Ended June 30, 2013						As of June 30, 2013				
	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	$13,957	55.76	%	0.66	%		$25,776	35.26	%	0.61	%
Real estate construction	696	2.78		0.03			3,967	5.43		0.09	
Residential real estate	(169)	(0.68)		(0.01)			13,156	18.00		0.31	
Commercial real estate	9,130	36.47		0.44			29,941	40.96		0.71	
Loans to individuals	1,418	5.67		0.07			257	0.35		0.01	
Total loans, net of unearned income	$25,032	100.00	%	1.19	%		$73,097	100.00	%	1.73	%

As the above table illustrates, commercial real estate loans represented a significant portion of the nonperforming loans as of June 30, 2013. See discussions related to the provision for credit losses and loans for more information.

Capital Resources

At June 30, 2013, shareholders' equity was $710.7 million, a decrease of $35.3 million from December 31, 2012. The decrease was primarily the result of $16.4 million net income offset by $23.2 million of common stock repurchases, $10.8 million of dividends paid to shareholders and decreases of $18.0 million in the fair value of available for sale investments. Cash dividends declared per common share were $0.11 and $0.08 for the six-months ended June 30,

2013 and 2012, respectively.

First Commonwealth is 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 its banking subsidiary 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.

On July 9, 2013, federal banking agencies approved changes to the regulatory capital framework which are effective beginning on January 1, 2015, with some items phasing in over a period of time. The most significant of these 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. Management currently expects First Commonwealth will remain well-capitalized after the adoption of these changes.

Under current regulations, quantitative measures to ensure capital adequacy require First Commonwealth to maintain minimum amounts and ratios of Total and Tier I capital (common and certain other "core" equity capital) to risk weighted assets, and of Tier I capital to average assets. As of June 30, 2013, First Commonwealth and its banking subsidiary met all capital adequacy requirements to which they are subject.

As of June 30, 2013, First Commonwealth was considered well-capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, the Company must maintain minimum Total risk-based capital, Tier I risk-based capital and Tier I leverage ratios as set forth in the table below:

	Actual			Regulatory Minumum			Well Capitalized Regulatory		
	Capital Amount	Ratio		Capital Amount	Ratio		Capital Amount	Ratio	
	(dollars in thousands)								
Total Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$735,759	15.16	%	$388,295	8.00	%			
First Commonwealth Bank	703,004	14.52		387,436	8.00		$484,295	10.00	%
Tier I Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$675,049	13.91	%	$194,147	4.00	%			
First Commonwealth Bank	642,427	13.27		193,718	4.00		$290,577	6.00	%
Tier I Capital to Average Assets									
First Commonwealth Financial Corporation	$675,049	11.76	%	$229,702	4.00	%			
First Commonwealth Bank	642,427	11.28		227,823	4.00		$284,779	5.00	%

The April 1, 2013 redemption of $32.5 million in mandatorily redeemable capital securities issued by First Commonwealth Captial Trust I impacted Tier I and Tier II regulatory capital levels of First Commonwealth Financial Corporation by 66 basis points.

On June 19, 2012, the Company announced a $50.0 million common stock repurchase program and on January 29, 2013, an additional share repurchase program was authorized for up to $25.0 million in shares of the Company's common stock. As of June 30, 2013, 8,921,093 shares were repurchased under these programs at an average price of $6.80 per share.

On July 24, 2013, First Commonwealth Financial Corporation declared a quarterly dividend of $0.06 per share payable on August 16, 2013 to shareholders of record as of August 5, 2013. 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.

57

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

McGrogan v. First Commonwealth Bank

For a description of McGrogan v. First Commonwealth Bank, refer to the "Legal proceedings" section in Part I, Item 1, Note 6, "Commitments and Contingent Liabilities," which is incorporated herein by reference to this item.

Other 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, 2012.

Table of Contents
FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

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

On June 19, 2012, the Company announced a share repurchase program through which the Board of Directors authorized management to repurchase up to $50.0 million of the Company’s common stock. On January 29, 2013, an additional share repurchase program was authorized for up to $25.0 million in shares of the Company’s common stock. The following table details the amount of shares repurchased under this program during the second quarter of 2013:

Month Ending:	Total Number of Shares Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
April 30, 2013	1,548,229	$7.09	1,548,229	3,389,630
May 31, 2013	478,404	7.13	478,404	2,888,146
June 30, 2013	909,685	7.11	909,685	1,947,429
Total	2,936,318	$7.11	2,936,318	

* Remaining number of shares approved under the Plan is estimated on based on the market value of the Company's common stock of $7.15 at April 30, 2013, $7.21 at May 31, 2013 and $7.37 at June 30, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
10.1	Employment Agreement dated May 31, 2013 between First Commonwealth Financial Corporation and Jane Grebenc	Filed herewith
10.2	Change of Control Agreement dated May 31, 2013 between First Commonwealth Financial Corporation and Jane Grebenc	Filed herewith
10.3	Restricted Stock Agreement dated May 31, 2013 between First Commonwealth Financial Corporation and Jane Grebenc	Filed herewith
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	Interactive Data File (XBRL)	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: August 7, 2013	/s/ T. Michael Price T. Michael Price President and Chief Executive Officer
DATED: August 7, 2013	/s/ Robert E. Rout Robert E. Rout Executive Vice President and Chief Financial Officer