FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
November 12, 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 September 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 November 7, 2013, was 95,250,215.

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ITEM 1. Financial Statements and Supplementary Data
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	September 30, 2013	December 31, 2012
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$88,179	$98,724
Interest-bearing bank deposits	5,077	4,258
Securities available for sale, at fair value	1,291,063	1,171,303
Other investments	33,704	28,228
Loans:		
Portfolio loans	4,240,004	4,204,704
Allowance for credit losses	(54,957)	(67,187)
Net loans	4,185,047	4,137,517
Premises and equipment, net	67,050	68,970
Other real estate owned	9,656	11,262
Goodwill	159,956	159,956
Amortizing intangibles, net	1,527	2,375
Bank owned life insurance	173,052	170,925
Other assets	136,651	141,872
Total assets	$6,150,962	$5,995,390
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$908,436	$883,269
Interest-bearing	3,709,365	3,674,612
Total deposits	4,617,801	4,557,881
Short-term borrowings	551,628	356,227
Subordinated debentures	72,167	105,750
Other long-term debt	144,501	174,471
Total long-term debt	216,668	280,221
Other liabilities	53,509	55,054
Total liabilities	5,439,606	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 September 30, 2013 and December 31, 2012, and 95,544,765 and 99,629,494 shares outstanding at September 30, 2013 and December 31, 2012, respectively	105,563	105,563
Additional paid-in capital	365,338	365,354
Retained earnings	331,203	315,608
Accumulated other comprehensive (loss) income, net	(19,469)	1,259
Treasury stock (10,018,690 and 5,933,961 shares at September 30, 2013 and December 31, 2012, respectively)	(71,279)	(41,777)
Total shareholders’ equity	711,356	746,007
Total liabilities and shareholders’ equity	$6,150,962	$5,995,390

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

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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 September 30,		For the Nine-Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	$43,935	$46,339	$132,178	$140,787
Interest and dividends on investments:				
Taxable interest	8,280	7,520	22,708	24,348
Interest exempt from federal income taxes	1	1	3	11
Dividends	90	18	156	58
Interest on bank deposits	2	2	5	4
Total interest income	52,308	53,880	155,050	165,208
Interest Expense				
Interest on deposits	3,750	5,054	11,948	16,944
Interest on short-term borrowings	362	311	869	817
Interest on subordinated debentures	584	1,424	2,548	4,279
Interest on other long-term debt	383	441	1,340	1,430
Total interest on long-term debt	967	1,865	3,888	5,709
Total interest expense	5,079	7,230	16,705	23,470
Net Interest Income	47,229	46,650	138,345	141,738
Provision for credit losses	2,714	6,754	18,011	14,838
Net Interest Income after Provision for Credit Losses	44,515	39,896	120,334	126,900
Noninterest Income				
Changes in fair value on impaired securities	236	1,374	4,941	1,549
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(236)	(1,374)	(4,941)	(1,549)
Net impairment losses	—	—	—	—
Net securities gains	229	163	237	163
Trust income	1,406	1,631	4,677	4,780
Service charges on deposit accounts	4,227	3,736	11,443	10,975
Insurance and retail brokerage commissions	1,822	1,844	4,623	4,938
Income from bank owned life insurance	1,359	1,465	4,219	4,369
Gain on sale of assets	1,356	757	2,056	4,316
Card related interchange income	3,536	3,260	10,214	9,659
Joint venture termination fee	—	1,909	—	1,909
Other income	3,148	3,090	9,430	10,222
Total noninterest income	17,083	17,855	46,899	51,331
Noninterest Expense				
Salaries and employee benefits	20,998	21,280	64,288	65,401
Net occupancy expense	3,274	3,235	10,130	9,942
Furniture and equipment expense	3,294	3,118	9,863	9,326
Data processing expense	1,492	1,987	4,511	5,346
Pennsylvania shares tax expense	1,516	1,510	4,223	4,203
Intangible amortization	193	367	848	1,109
Collection and repossession expense	860	1,281	2,862	4,650

Other professional fees and services	878	1,028	2,795	3,167
FDIC insurance	1,178	1,258	3,312	3,757
Loss on sale or write-down of assets	479	426	1,009	4,215
Loss on redemption of subordinated debt	—	—	1,629	—
Operational losses	238	3,657	790	4,033
Other operating expenses	5,645	5,618	17,237	18,216
Total noninterest expense	40,045	44,765	123,497	133,365
Income Before Income Taxes	21,553	12,986	43,736	44,866
Income tax provision	5,699	3,139	11,513	11,647
Net Income	$15,854	$9,847	$32,223	$33,219
Average Shares Outstanding	96,194,594	104,080,025	97,671,343	104,593,125
Average Shares Outstanding Assuming Dilution	96,208,545	104,098,383	97,675,352	104,595,396
Per Share Data:				
Basic Earnings per Share	$0.16	$0.09	$0.33	$0.32
Diluted Earnings per Share	$0.16	$0.09	$0.33	$0.32
Cash Dividends Declared per Common Share	$0.06	$0.05	$0.17	$0.13

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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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 September 30,		For the Nine-Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Net Income	$15,854	$9,847	$32,223	$33,219
Other comprehensive (loss) income, before tax benefit (expense):				
Unrealized holding (losses) gains on securities arising during the period	(4,239)	2,068	(36,585)	3,165
Non-credit related gains on securities not expected to be sold	236	1,374	4,941	1,549
Less: reclassification adjustment for gains on securities included in net income	(229)	(163)	(237)	(163)
Total other comprehensive (loss) income, before tax benefit (expense)	(4,232)	3,279	(31,881)	4,551
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,485	(1,146)	11,153	(1,585)
Total other comprehensive (loss) income	(2,747)	2,133	(20,728)	2,966
Comprehensive Income	$13,107	$11,980	$11,495	$36,185

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

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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				32,223				32,223
Other comprehensive loss					(20,728)			(20,728)
Cash dividends declared ($0.17 per share)				(16,630)				(16,630)
Discount on dividend reinvestment plan purchases			(84)					(84)
Treasury stock acquired	(4,168,088)					(30,001)		(30,001)
Treasury stock reissued	25,359			—		176		176
Restricted stock	58,000	—	68	2		323		393
Balance at September 30, 2013	95,544,765	$105,563	$365,338	$331,203	$ (19,469)	$(71,279)	$—	$711,356

	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				33,219				33,219
Other comprehensive income					2,966			2,966
Cash dividends declared ($0.13 per share)				(13,633)				(13,633)
Net decrease in unearned ESOP shares							1,500	1,500
			(445)					(445)

ESOP market value adjustment ($685, net of $240 tax benefit)								
Discount on dividend reinvestment plan purchases			(67)					(67)
Tax benefit of stock options exercised			1					1
Treasury stock acquired	(1,342,517)					(9,112)		(9,112)
Treasury stock reissued	95,552		—	(329)		946		617
Restricted stock	220,000	—	37	(1,264)		1,529		302
Balance at September 30, 2012	103,890,029	$105,563	$365,394	$312,049	$4,967	$(13,982)	$(100)	$773,891

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

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

	For the Nine-Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Operating Activities		
Net income	$32,223	$33,219
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	18,011	14,838
Deferred tax expense	9,441	2,507
Depreciation and amortization	6,899	5,736
Net gains on securities and other assets	(892)	(1,392)
Net amortization of premiums and discounts on securities	278	1,075
Net amortization of premiums and discounts on long term debt	(88)	(84)
Income from increase in cash surrender value of bank owned life insurance	(4,219)	(4,369)
Decrease in interest receivable	1,807	1,426
Decrease in interest payable	(1,297)	(2,087)
(Decrease) increase in income taxes payable	(1,093)	6,294
Decrease in prepaid FDIC insurance	9,205	3,500
Other-net	(2,434)	(6,067)
Net cash provided by operating activities	67,841	54,596
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	671	—
Proceeds from maturities and redemptions	258,097	410,909
Purchases	(410,435)	(395,337)
Purchases of FHLB stock	(15,378)	—
Proceeds from the redemption of FHLB stock	9,902	7,317
Proceeds from bank owned life insurance	2,092	2,071
Proceeds from sale of loans	20,760	15,981
Proceeds from sales of other assets	10,880	15,301
Net increase in loans	(94,250)	(185,018)
Purchases of premises and equipment	(4,576)	(6,468)
Net cash used in investing activities	(222,237)	(135,244)
Financing Activities		
Net decrease in federal funds purchased	(23,000)	(54,800)
Net increase in other short-term borrowings	218,401	203,792
Net increase (decrease) in deposits	59,945	(10,206)
Repayments of other long-term debt	(29,883)	(25,358)
Repayments of subordinated debentures	(34,702)	—
Discount on dividend reinvestment plan purchases	(84)	(67)
Dividends paid	(16,630)	(13,633)
Proceeds from reissuance of treasury stock	176	617
Purchase of treasury stock	(29,553)	(9,112)
Stock option tax benefit	—	1
Net cash provided by financing activities	144,670	91,234

Net (decrease) increase in cash and cash equivalents	(9,726)	10,586
Cash and cash equivalents at January 1	102,982	78,478
Cash and cash equivalents at September 30	$93,256	$89,064

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

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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 nine-months ended September 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 gains on securities not expected to be sold are included in the "Noninterest Income" section of the Condensed Consolidated Statements of Income.

	For the Nine-Months Ended September 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	$(36,585)	$ 12,799	$(23,786)	$3,165	$ (1,100)	$2,065
Non-credit related gains on securities not expected to be sold	4,941	(1,729)	3,212	1,549	(542)	1,007
Reclassification adjustment for gains on securities included in net income	(237)	83	(154)	(163)	57	(106)
Total unrealized (losses) gains on securities	(31,881)	11,153	(20,728)	4,551	(1,585)	2,966
Total other comprehensive (loss) income	$(31,881)	$ 11,153	$(20,728)	$4,551	$ (1,585)	$2,966

	For the Three-Months Ended September 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	$(4,239)	$ 1,487	$(2,752)	$2,068	$ (722)	$1,346
	236	(82)	154	1,374	(481)	893

Non-credit related gains on securities not expected to be sold						
Reclassification adjustment for gains on securities included in net income	(229)	80	(149)	(163)	57	(106)
Total unrealized (losses) gains on securities	(4,232)	1,485	(2,747)	3,279	(1,146)	2,133
Total other comprehensive (loss) income	$(4,232)	$ 1,485	$(2,747)	$3,279	$ (1,146)	$2,133

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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 details the change in components of OCI for the nine-months ended September 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	(23,786)	—	(23,786)	2,065	—	2,065
Amounts reclassified from accumulated other comprehensive income (loss)	3,058	—	3,058	901	—	901
Net other comprehensive (loss) income during the period	(20,728)	—	(20,728)	2,966	—	2,966
Balance at September 30	$(19,607)	$ 138	$ (19,469)	$4,635	$ 332	$ 4,967

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 nine-months ended September 30:

	2013	2012
	(dollars in thousands)	
Cash paid during the period for:		
Interest	$18,115	$25,685
Income taxes	3,080	8,900
Non-cash investing and financing activities:		
ESOP loan reductions	$—	$1,500
Loans transferred to other real estate owned and repossessed assets	8,847	4,053
Loans transferred from held to maturity to held for sale	20,135	—
Gross (decrease) increase in market value adjustment to securities available for sale	(31,866)	4,529
Unsettled treasury stock repurchases	1,670	—

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 September 30		For the Nine-Months Ended September 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	(9,184,715)	(1,258,029)	(7,715,455)	(738,769)
Averaged unearned ESOP shares	—	(17,575)	—	(50,790)
Average unearned nonvested shares	(184,146)	(207,826)	(176,657)	(180,771)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	96,194,594	104,080,025	97,671,343	104,593,125
	13,951	16,874	4,009	2,224

Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share				
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	—	1,484	—	47
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	96,208,545	104,098,383	97,675,352	104,595,396

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

	2013			2012		
		Price Range			Price Range	
	Shares	From	To	Shares	From	To
Stock Options	31,954	$10.46	$14.55	293,777	$6.90	$14.55
Restricted Stock	92,181	5.96	7.57	93,565	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:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	$239	$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:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$1,568,438	$1,506,618
Financial standby letters of credit	40,245	47,185
Performance standby letters of credit	34,084	69,240
Commercial letters of credit	—	685

The notional amounts outstanding as of September 30, 2013 include amounts issued in 2013 of $0.7 million in financial standby letters of credit and $1.2 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 September 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 related to these commitments resulted in the recording of a liability of $2.6 million as of September 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 parties filed cross-appeals with the Pennsylvania Superior Court which were argued on May 7, 2013. The Superior Court subsequently issued an order in which it affirmed the trial court's decision to deny class certification of the fraud and Unfair Trade Practices and Consumer Protection Law Claims and quashed the other issues raised on appeal on the basis that the individual claims of the named plaintiffs had not been finally adjudicated. The case has been remanded to the Court of Common Pleas.

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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 September 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:

	September 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	$23,787	$2,680	$(16)	$26,451	$27,883	$3,781	$—	$31,664
Obligations of U.S. Government-Sponsored Enterprises: Mortgage-Backed Securities – Residential	972,347	14,144	(22,258)	964,233	839,102	25,691	(392)	864,401
Mortgage-Backed Securities – Commercial	114	2	—	116	148	1	—	149
Other Government-Sponsored Enterprises	267,969	228	(1,894)	266,303	241,970	766	(72)	242,664
Obligations of States and Political Subdivisions	81	1	—	82	82	4	—	86
Corporate Securities	6,697	304	—	7,001	6,703	288	—	6,991
Pooled Trust Preferred Collateralized Debt Obligations	48,824	96	(23,463)	25,457	51,866	3	(28,496)	23,373
Total Debt Securities	1,319,819	17,455	(47,631)	1,289,643	1,167,754	30,534	(28,960)	1,169,328
Equities	1,420	—	—	1,420	1,859	116	—	1,975
Total Securities Available for Sale	$1,321,239	$17,455	$(47,631)	$1,291,063	$1,169,613	$30,650	$(28,960)	$1,171,303

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The amortized cost and estimated fair value of debt securities available for sale at September 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	$28,215
Due after 1 but within 5 years	239,969	238,170
Due after 5 but within 10 years	—	—
Due after 10 years	55,521	32,458
	323,571	298,843
Mortgage-Backed Securities (a)	996,248	990,800
Total Debt Securities	$1,319,819	$1,289,643

(a) Mortgage Backed Securities include an amortized cost of $23.8 million and a fair value of $26.5 million for Obligations of U.S. Government agencies issued by Ginnie Mae and an amortized cost of $972.5 million and a fair value of $964.3 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 nine-months ended September 30:

	2013	2012
	(dollars in thousands)	
Proceeds from sales	$671	$—
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	$233	$—
Gross losses	—	—
	233	—
Maturities and impairment		
Gross gains	4	163
Gross losses	—	—
Other-than-temporary impairment	—	—
	4	163
Net gains and impairment	$237	$163

Securities available for sale with an estimated fair value of $628.0 million and $631.0 million were pledged as of September 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 September 30, 2013 and December 31, 2012, our FHLB stock totaled $33.7 million and $28.2

million, respectively and is included in “Other investments” on the Condensed Consolidated Statements of Financial Condition.

During the first six months of 2013 and the entire year of 2012, the FHLB repurchased excess stock from its members by repurchasing the lesser of 5% of the members’ total capital stock outstanding or its total excess capital stock. In July 2013, the FHLB began repurchasing 100% of a members excess stock on a monthly basis. As a result, during the nine-months ended September 30, 2013 and 2012, $9.9 million and $7.3 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 an ongoing basis. Management reviewed the FHLB's Form 10-Q for the period ended June 30, 2013 filed with the SEC on August 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 nine-months ended September 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 nine-months ended September 30, 2013 and 2012, no other-than-temporary impairment charges were recognized. For the nine-months ended September 30, 2013, $4.9 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, $1.5 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 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.

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The following table presents the gross unrealized losses and estimated fair values at September 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	$2,092	$(16)	$—	$—	$2,092	$(16)
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	580,232	(22,258)	—	—	580,232	(22,258)
Other Government-Sponsored Enterprises	183,075	(1,894)	—	—	183,075	(1,894)
Pooled Trust Preferred Collateralized Debt Obligations	34	(23)	22,603	(23,440)	22,637	(23,463)
Total Securities Available for Sale	$765,433	$(24,191)	$22,603	$(23,440)	$788,036	$(47,631)

At September 30, 2013, pooled trust preferred collateralized debt obligations accounted for 49% of the unrealized losses, while fixed income securities issued by U.S. Government-sponsored enterprises comprised 51% 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 September 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 September 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, respectively, 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 trends and capital position, to determine whether issues in an unrealized loss position were other-than-temporarily impaired. All interest payments on the corporate securities are being made as contractually required.

As of September 30, 2013, the book value of our pooled trust preferred collateralized debt obligations totaled $48.8 million with an estimated fair value of $25.5 million, which includes securities comprised of 307 banks and other financial institutions. At the time of issuance, one of our pooled securities was a senior tranche and the remainders were mezzanine tranches, four of which now have no senior class remaining in the issue. During the three months ended September 30, 2013, the credit rating on six of the pooled issues were upgraded and one was downgraded. However, only one of the pooled issues, representing $2 thousand of the $48.8 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 September 30, 2013, after taking into account management's best estimates of future interest deferrals and defaults, seven of our securities had no excess subordination in the

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tranches we own and four of our securities had excess subordination which ranged from 0% to 57% of the current performing collateral.

The following table provides information related to our pooled trust preferred collateralized debt obligations as of September 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/AAA	9	33.33 %	— %*
Pre TSL IV	Mezzanine	1,830	1,266	(564)	Caa2/B	6	18.05	56.91
Pre TSL V	Mezzanine	57	34	(23)	C/-	3	100.00	—
Pre TSL VII	Mezzanine	2,722	2,818	96	Ca/C	15	52.80	—
Pre TSL VIII	Mezzanine	1,927	1,093	(834)	C/C	30	58.01	—
Pre TSL IX	Mezzanine	2,295	1,133	(1,162)	Caa1/C	44	27.04	6.44
Pre TSL X	Mezzanine	1,367	1,330	(37)	Caa3(Ca)/C	47	34.92	—
Pre TSL XII	Mezzanine	5,380	2,958	(2,422)	Caa3/C	69	30.17	—
Pre TSL XIII	Mezzanine	12,468	7,051	(5,417)	Caa3(Ca)/C	61	29.99	16.38
Pre TSL XIV	Mezzanine	13,537	6,211	(7,326)	Ca/C	59	37.00	35.64
MMCap I	Mezzanine	644	495	(149)	Ca/C	11	58.76	—
MM Comm IX	Mezzanine	6,595	1,066	(5,529)	Ca/D	27	44.41	—
Total		$48,824	$25,457	$(23,367)				

* Amount considered not meaningful.

Lack of liquidity in the market for trust preferred collateralized debt obligations, below investment grade credit ratings and market uncertainties related to the financial industry are factors contributing to the impairment on these securities. On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the three- and nine-months ended September 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 September 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 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 307 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.
- Probability of Default – A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and, therefore, a 100% probability of default is assigned. However, for some deferring collateral there is the possibility that they become current on interest or principal payments at some point in the future and in those cases a probability that the deferral will ultimately cure is assigned. The probability of default is updated quarterly. As of September 30, 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 September 30, 2013, indicates that no credit related other-than-temporary impairment has occurred on our pooled trust preferred securities during the nine-months ended September 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 September 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 September 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 15% to 165% and will be recognized as an adjustment to yield over the remaining life of these securities. During the three-months ended September 30, 2013, three of these securities, PreTSL VII, PreTSL XII and PreTSL XIII, received unscheduled principal payments, resulting in the recognition of $1.0 million of related excess subordination. The excess subordination recognized as an adjustment to yield are reflected in the following table as increases in cash flows expected to be collected.

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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 September 30		For the Nine-Months Ended September 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Balance, beginning (a)	$42,699	$44,230	$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)	(1,326)	(436)	(1,901)	(942)
Balance, ending	$41,373	$43,794	$41,373	$43,794

(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 third 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 September 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:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Commercial, financial, agricultural and other	$1,008,316	$1,019,822
Real estate construction	74,025	87,438
Residential real estate	1,280,990	1,241,565
Commercial real estate	1,272,366	1,273,661
Loans to individuals	604,307	582,218
Total loans and leases net of unearned income	$4,240,004	$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.

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:

	September 30, 2013					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	$940,572	$60,322	$1,263,936	$1,190,752	$603,829	$4,059,411
Non-Pass						
OAEM	25,287	1,046	5,375	41,688	1	73,397
Substandard	42,457	12,657	11,679	39,926	477	107,196
Doubtful	—	—	—	—	—	—
Total Non-Pass	67,744	13,703	17,054	81,614	478	180,593
Total	$1,008,316	$74,025	$1,280,990	$1,272,366	$604,307	$4,240,004

	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.

Criticized loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate to absorb losses inherent to the portfolio as of September 30, 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.

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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 September 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.

	September 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	$601	$109	$203	$24,365	$25,278	$983,038	$1,008,316
Real estate construction	12	—	—	2,850	2,862	71,163	74,025
Residential real estate	3,942	1,072	988	10,456	16,458	1,264,532	1,280,990
Commercial real estate	570	210	116	22,074	22,970	1,249,396	1,272,366
Loans to individuals	2,581	859	1,057	184	4,681	599,626	604,307
Total	$7,706	$2,250	$2,364	$59,929	$72,249	$4,167,755	$4,240,004

	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
Residential real estate	6,597	2,357	730	9,283	18,967	1,222,598	1,241,565
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 $36.3 million during the nine-months ended September 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 nine months of 2013. Additionally, $21.2 million in charge-offs were recognized on four commercial loan relationships during the first nine months 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, $3.0 million for a commercial real estate loan to a western Pennsylvania student housing project which paid off during the third quarter of 2013, $2.3 million for a commercial industrial loan to a local energy company and $13.1 million for an unsecured commercial loan to a western Pennsylvania real estate developer.

A total of $39.8 million of loans were moved into nonaccrual status during the nine-months ended September 30, 2013. Five commercial loan relationships comprise $32.7 million of this total. These relationships include:

- $12.7 million in commercial industrial loans to a local energy company,
- a $7.6 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 nine-months ended September 30, 2013,
- 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, $2.7 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 $9.5 million at September 30, 2013 compared to December 31, 2012, primarily due to charge-offs of amounts reserved for in prior periods as well as the payoff of certain nonaccrual loans previously discussed. Unfunded commitments related to nonperforming loans were $0.5 million at September 30, 2013 and after consideration of available collateral related to these commitments, an off balance sheet reserve of $0.2 million was established.

There were no loans held for sale at September 30, 2013 and December 31, 2012; however, sales of loans during the nine-months ended September 30, 2013 and 2012 resulted in gains of $0.6 million and $2.9 million, respectively.

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

- $12.7 million of commercial industrial loans to a local energy company. These loans were originated from 2008 to 2011 and were placed in nonaccrual status during the third quarter of 2013. One of these loans, totaling $3.3 million, was modified resulting in TDR classification in the second quarter of 2012. An updated valuation of the collateral was completed during the third quarter of 2013.
- $7.6 million commercial industrial loan to a real estate management company in western Pennsylvania. These loans were originated in 2008 and were placed on 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.

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- $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 on 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.
- $3.5 million commercial real estate and industrial loans to a specialty metal processor in western Pennsylvania. This loan was originated in 2003 and was placed on 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 on 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.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of September 30, 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.

	September 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	$10,209	$11,137		$8,080	$8,983	
Real estate construction	2,251	5,795		8,491	35,555	
Residential real estate	9,493	10,118		7,928	8,401	
Commercial real estate	21,695	23,111		33,259	35,401	
Loans to individuals	257	272		256	256	
Subtotal	43,905	50,433		58,014	88,596	
With an allowance recorded:						
Commercial, financial, agricultural and other	16,530	17,064	4,889	26,532	27,412	10,331
Real estate construction	1,866	2,181	165	2,756	3,087	300
Residential real estate	3,406	3,440	1,377	2,695	2,696	780
Commercial real estate	5,512	8,924	1,808	17,558	17,896	6,367
Loans to individuals	—	—	—	—	—	—
Subtotal	27,314	31,609	8,239	49,541	51,091	17,778
Total	$71,219	$82,042	$8,239	$107,555	$139,687	$17,778

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	For the Nine-Months Ended September 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	$14,482	$147	$9,281	$116
Real estate construction	5,390	—	6,641	—
Residential real estate	9,376	129	7,604	17
Commercial real estate	26,390	119	27,869	50
Loans to individuals	248	3	9	—
Subtotal	55,886	398	51,404	183
With an allowance recorded:				
Commercial, financial, agricultural and other	15,552	46	21,025	5
Real estate construction	1,848	35	7,381	—
Residential real estate	3,001	24	1,532	20
Commercial real estate	5,628	1	2,713	11
Loans to individuals	—	—	—	—
Subtotal	26,029	106	32,651	36
Total	$81,915	$504	$84,055	$219

	For the Three-Months Ended September 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	$14,000	$41	$6,664	$94
Real estate construction	2,340	—	4,954	—
Residential real estate	9,977	52	4,374	6
Commercial real estate	23,428	42	29,878	14
Loans to individuals	251	1	28	—
Subtotal	49,996	136	45,898	114
With an allowance recorded:				
Commercial, financial, agricultural and other	10,370	16	25,469	2
Real estate construction	1,541	8	8,848	—
Residential real estate	3,349	10	2,130	6
Commercial real estate	5,371	1	4,754	11
Loans to individuals	—	—	—	—
Subtotal	20,631	35	41,201	19
Total	$70,627	$171	$87,099	$133

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.

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

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	$11,290	$13,037
Nonaccrual status	17,807	50,979
Total	$29,097	$64,016
Commitments		
Letters of credit	$—	$1,574
Unused lines of credit	3,244	—
Total	$3,244	$1,574

At September 30, 2013, troubled debt restructured loans decreased $34.9 million compared to December 31, 2012 and commitments related to troubled debt restructured loans increased $1.7 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 increase in unused line of credit commitments is related to two commercial borrowers.

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

	For the Nine-Months Ended September 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	7	$2,969	$—	$105	$ 3,074	$1,041	$198
Residential real estate	32	347	350	1,552	2,249	1,924	274
Commercial real estate	6	758	244	1,551	2,553	2,484	1,062
Loans to individuals	12	9	70	28	107	83	—
Total	57	$4,083	$664	$3,236	$ 7,983	$5,532	$1,534

	For the Nine-Months Ended September 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	10	$1,599	$187	$7,538	$ 9,324	$8,885	$3,140
Real estate construction	1	823	—	—	823	791	—
Residential real estate	3	—	97	83	180	131	—
Commercial real estate	1	—	516	—	516	529	98
Total	15	$2,422	$800	$7,621	$ 10,843	$10,336	$3,238

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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 nine-months ended September 30, 2013 and 2012, $0.6 million and $0.8 million, 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.

	For the Three-Months Ended September 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	4	$2,442	$—	$93	$ 2,535	$601	$198
Residential real estate	10	67	24	269	360	361	—
Commercial real estate	5	758	—	1,551	2,309	2,252	1,062
Loans to individuals	6	10	36	21	67	58	—
Total	25	$3,277	$60	$1,934	$ 5,271	$3,272	$1,260

	For the Three-Months Ended September 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	6	$1,153	$169	$1,509	$ 2,831	$3,004	$746
Commercial real estate	1	—	516	—	516	529	98
Total	7	$1,153	$685	$1,509	$ 3,347	$3,533	$844

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 September 30, 2013 and 2012, $45 thousand and $0.7 million, 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 nine-months ended September 30:

	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(dollars in thousands)			
Residential real estate	1	$9	—	$—
Loans to individuals	2	9	—	—
Total	3	$18	—	$—

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

	2013 Number of Contracts	2013 Recorded Investment	2012 Number of Contracts	2012 Recorded Investment
	(dollars in thousands)			
Residential real estate	1	$9	—	$—
Loans to individuals	1	5	—	—
Total	2	$14	—	$—

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

	For the Nine-Months Ended September 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	(17,302)	(773)	(1,400)	(10,051)	(2,669)	—	(32,195)
Recoveries	345	140	883	121	465	—	1,954
Provision (credit)	12,038	(1,865)	446	4,318	2,266	808	18,011
Ending Balance	$14,933	$6,430	$5,837	$16,829	$4,194	$6,734	$54,957
Ending balance: individually evaluated for impairment	$4,889	$165	$1,377	$1,808	$—	$—	$8,239
Ending balance: collectively evaluated for impairment	10,044	6,265	4,460	15,021	4,194	6,734	46,718
Loans:							
Ending balance	1,008,316	74,025	1,280,990	1,272,366	604,307		4,240,004
Ending balance: individually evaluated for impairment	25,620	4,028	9,794	25,197	—		64,639
Ending balance: collectively evaluated for impairment	982,696	69,997	1,271,196	1,247,169	604,307		4,175,365

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	For the Nine-Months Ended September 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	(4,939)	(2,356)	(2,984)	(638)	(2,494)	—	(13,411)
Recoveries	349	121	331	256	396	—	1,453
Provision (credit)	4,470	4,341	1,120	1,855	2,074	978	14,838
Ending Balance	$18,080	$8,862	$6,704	$20,434	$4,220	$5,814	$64,114
Ending balance: individually evaluated for impairment	$7,306	$973	$719	$3,916	$—	$—	$12,914
Ending balance: collectively evaluated for impairment	10,774	7,889	5,985	16,518	4,220	5,814	51,200
Loans:							
Ending balance	1,087,019	95,425	1,228,328	1,217,249	586,278		4,214,299
Ending balance: individually evaluated for impairment	32,833	11,427	7,224	37,369	—		88,853
Ending balance: collectively evaluated for impairment	1,054,186	83,998	1,221,104	1,179,880	586,278		4,125,446

	For the Three-Months Ended September 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	$16,575	$8,246	$6,439	$16,128	$4,142	$5,922	$57,452
Charge-offs	(3,081)	(18)	(757)	(813)	(914)	—	(5,583)
Recoveries	81	81	71	13	128	—	374
Provision (credit)	1,358	(1,879)	84	1,501	838	812	2,714
Ending Balance	$14,933	$6,430	$5,837	$16,829	$4,194	$6,734	$54,957

For the Three-Months Ended September 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	$19,302	$8,001	$6,619	$17,638	$4,209	$5,907	$61,676
Charge-offs	(1,271)	(2,016)	(530)	(97)	(756)	—	(4,670)
Recoveries	74	29	49	70	132	—	354
Provision (credit)	(25)	2,848	566	2,823	635	(93)	6,754
Ending Balance	$18,080	$8,862	$6,704	$20,434	$4,220	$5,814	$64,114

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 42 and 49 of this Form 10-Q.

Note 11 Income Taxes

At September 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 2010 through 2012 were open for examination as of September 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, 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, 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.

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.

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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	$25,457	Discounted Cash Flow	Probability of default	0% - 100% (19.61%)
			Prepayment rates	0% - 99.75% (8.2%)
			Discount rates	5.75% - 15.5% (a)
Equities	1,420	Par Value	N/A	N/A
Interest Rate Swap	—	Option model	Counterparty credit risk	7.98% - 9.11% (b)
Impaired Loans	7,727 (c)	Reserve study	Discount rate	10.00%
			Gas per MCF	$3.56 - $7.60 (d)
			Oil per BBL/d	$79.97 - $106.00 (d)
			NGL per gallon	$1.54 (d)
Other Real Estate Owned	242	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:

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities - Residential	$—	$26,451	$—	$26,451
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities - Residential	—	964,233	—	964,233
Mortgage-Backed Securities - Commercial	—	116	—	116
Other Government-Sponsored Enterprises	—	266,303	—	266,303
Obligations of States and Political Subdivisions	—	82	—	82
Corporate Securities	—	7,001	—	7,001
Pooled Trust Preferred Collateralized Debt Obligations	—	—	25,457	25,457
Total Debt Securities	—	1,264,186	25,457	1,289,643
Equities	—	—	1,420	1,420
Total Securities Available for Sale	—	1,264,186	26,877	1,291,063
Other Investments	—	33,704	—	33,704
Loans held for sale	—	—	—	—
Other Assets(a)	—	14,249	—	14,249
Total Assets	$—	$1,312,139	$26,877	$1,339,016
Other Liabilities(a)	$—	$14,360	$—	$14,360
Total Liabilities	$—	$14,360	$—	$14,360

(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 nine-months ended September 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	—	—	625	—	625
Included in other comprehensive income	7,399	—	—	—	7,399
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(20,760)	—	(20,760)
Settlements	(5,315)	—	—	—	(5,315)
Transfers into Level 3	—	—	20,135	—	20,135
Balance, end of period	$25,457	$1,420	$—	$—	$26,877

	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	3,610	—	—	—	3,610
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(15,981)	—	(15,981)
Settlements	(3,539)	—	(301)	—	(3,840)
Transfers into Level 3	—	—	—	461	461
Balance, end of period	$23,051	$1,420	$—	$—	$24,471

For the nine-months ended September 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 nine-months ended September 30, 2013 due to the loans being transferred to a held for sale status. The loans transferred and subsequently sold related to three nonperforming relationships for which this was determined to be the appropriate exit strategy. Completion of the loan sales resulted in a $0.6 million gain for the period. For the nine-months ended September 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 September 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 September 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	$25,869	$1,420	$—	$—	$27,289
Total gains or losses					
Included in earnings	—	—	242	—	242
Included in other comprehensive income	1,716	—	—	—	1,716
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(242)	—	(242)
Settlements	(2,128)	—	—	—	(2,128)
Transfers into Level 3	—	—	—	—	—
Balance, end of period	$25,457	$1,420	$—	$—	$26,877

	2012				
	Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$21,792	$1,420	$—	$—	23,212
Total gains or losses					
Included in earnings	—	—	—	—	—
Included in other comprehensive income	2,030	—	—	—	2,030
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	(771)	—	—	—	(771)
Transfers from Level 3	—	—	—	—	—
Balance, end of period	$23,051	$1,420	$—	$—	$24,471

For the three-months ended September 30, 2013 and 2012, there were no transfers between fair value Levels 1 and 2. Additional proceeds from a loan sale in the second quarter of 2013 resulted in a $0.2 million gain for the period. For the three-months ended September 30, 2013 and 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 September 30, 2013 and 2012.

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

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	$—	$48,673	$14,307	$62,980
Other real estate owned	—	10,633	242	10,875
Total Assets	$—	$59,306	$14,549	$73,855

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

	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 September 30		For the Nine-Months Ended September 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Impaired loans	$(1,468)	$(3,890)	$(13,063)	$(7,352)
Other real estate owned	(90)	(366)	(188)	(523)
Total losses	$(1,558)	$(4,256)	$(13,251)	$(7,875)

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 broker-priced opinions.

The fair value for other real estate owned determined by either an independent market based appraisal less estimated costs to sell or an executed sales agreement is classified as Level 2. The fair value for other real estate owned determined using an internal valuation is classified as Level 3. Other real estate owned has a book cost of $9.7 million as of September 30, 2013 and consisted primarily of commercial real estate properties in Pennsylvania. We review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less estimated cost to sell, as determined by valuation techniques appropriate in the circumstances.

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Additional information related to goodwill is provided in Note 14, “Goodwill.” There were no other assets or liabilities measured at fair value on a non-recurring basis during the nine-months ended September 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: 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 September 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.

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

	September 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	$88,179	$88,179	$88,179	$—	$—
Interest-bearing deposits	5,077	5,077	5,077	—	—
Securities available for sale	1,291,063	1,291,063	—	1,264,186	26,877
Other investments	33,704	33,704	—	33,704	—
Loans	4,240,004	4,290,985	—	48,673	4,242,312
Financial liabilities					
Deposits	4,617,801	4,548,409	—	4,548,409	—
Short-term borrowings	551,628	551,619	—	551,619	—
Long-term debt	144,501	145,654	—	145,654	—
Subordinated debt	72,167	48,033	—	—	48,033

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	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 given default for all counterparties.

We have thirteen 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:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Credit value adjustment	$(78)	$(2,207)
Notional Amount:		
Interest rate derivatives	268,738	223,448
Risk participation agreements	84,758	71,390
Sold credit protection on risk participation agreements	(19,274)	—

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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 September 30		For the Nine-Months Ended September 30	
	2013	2012	2013	2012
	(dollars in thousands)			
Non-hedging interest rate derivatives:				
Increase in other income	$206	$375	$1,273	$1,126

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 September 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 September 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 September 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.

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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 nine-months ended September 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, the Consumer Financial Protection Bureau, the capital ratios of Basel III as adopted by federal banking authorities 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 40 for the nine-months ended September 30, 2013 and 2012.

Results of Operations

Nine-Months Ended September 30, 2013 Compared to Nine-Months Ended September 30, 2012

Net Income

For the nine-months ended September 30, 2013, First Commonwealth had net income of $32.2 million, or $0.33 per share, compared to net income of $33.2 million or $0.32 per share in the nine-months ended September 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 $141.4 million in the first nine months of 2013 compared to $145.1 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 73% for the nine-months ended September 30, 2013 and 2012, respectively.

Net interest margin, on a fully taxable equivalent basis, was 3.41% for the nine-months ended September 30, 2013 compared to 3.63% for the nine-months ended September 30, 2012. The 22 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 nine-months ended September 30, 2013 and 2012, both included unusual items in net interest income. In the nine-months ended September 30, 2013, $1.0 million in income was recognized on an other-than-temporarily impaired pooled trust preferred collateralized debt obligation that received an unscheduled payment. In 2012, $1.0 million in interest income related to the payoff of a loan that was previously in nonaccrual status was recognized.

The low interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the nine-months ended September 30, 2013. Yields and spreads for new volume in the commercial portfolio remained fairly consistent; 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 spread compression, as average earning assets for the nine-months ended September 30, 2013 increased $208.5 million, or 4%, compared to the comparable period in 2012. However, approximately 53% 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 nine-months ended September 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 3.81% for the nine-months ended September 30, 2013, a decrease of 41 basis points from the 4.22% 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 0.50% for the nine-months ended September 30, 2013, compared to 0.73% for the same period in 2012.

Comparing the nine-months ended September 30, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $7.7 million. The lower yield on interest-earning assets adversely impacted net interest income by $16.1 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $8.5 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 deposits 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 $4.0 million in the nine-months ended September 30, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $5.7 million in interest income, while volume changes primarily attributed to long-term debt increased interest expense by $1.7 million.

Positively affecting net interest income was a $51.4 million increase in average net free funds at September 30, 2013 as compared to September 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 nine-months ended September 30, 2013 decreased $10.9 million compared to the comparable period in 2012. The positive change in deposit mix is expected to continue as $716.3 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 nine-months ended September 30:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	$155,050	$165,208
Adjustment to fully taxable equivalent basis	3,084	3,361
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	158,134	168,569
Interest expense	16,705	23,470
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$141,429	$145,099

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 nine-months ended September 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	$3,311	$5	0.20 %	$4,458	$4	0.12 %
Tax-free investment securities (e)	84	4	7.39	333	17	6.83
Taxable investment securities	1,295,743	22,864	2.36	1,184,948	24,406	2.75
Loans, net of unearned income (b)(c)	4,248,048	135,261	4.26	4,148,937	144,142	4.64
Total interest-earning assets	5,547,186	158,134	3.81	5,338,676	168,569	4.22
Noninterest-earning assets:						
Cash	72,008			74,553		
Allowance for credit losses	(64,378)			(64,438)		
Other assets	567,009			583,768		
Total noninterest-earning assets	574,639			593,883		
Total Assets	$6,121,825			$5,932,559		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	$675,498	$184	0.04 %	$643,396	$222	0.05 %
Savings deposits (d)	1,939,660	2,326	0.16	1,909,777	3,276	0.23
Time deposits	1,167,593	9,438	1.08	1,156,689	13,446	1.55
Short-term borrowings	450,219	869	0.26	414,451	817	0.26
Long-term debt	239,166	3,888	2.17	190,720	5,709	4.00
Total interest-bearing liabilities	4,472,136	16,705	0.50	4,315,033	23,470	0.73
Noninterest-bearing liabilities and shareholders' equity:						
Noninterest-bearing demand deposits (d)	869,526			795,443		
Other liabilities	48,020			51,627		
Shareholders' equity	732,143			770,456		
Total noninterest-bearing funding sources	1,649,689			1,617,526		
Total Liabilities and Shareholders' Equity	$6,121,825			$5,932,559		
Net Interest Income and Net Yield on Interest-Earning Assets		$141,429	3.41 %		$145,099	3.63 %

(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 on tax-free investment securities calculated using fully taxable equivalent interest income of $4,648 and $17,022 for the nine-months ended September 30, 2013 and 2012, respectively.

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the nine-months ended September 30, 2013 compared with September 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)	$2
Tax-free investment securities	(13)	(13)	—
Taxable investment securities	(1,542)	2,281	(3,823)
Loans	(8,881)	3,443	(12,324)
Total interest income (b)	(10,435)	5,710	(16,145)
Interest-bearing liabilities:			
Interest-bearing demand deposits	(38)	12	(50)
Savings deposits	(950)	51	(1,001)
Time deposits	(4,008)	127	(4,135)
Short-term borrowings	52	70	(18)
Long-term debt	(1,821)	1,451	(3,272)
Total interest expense	(6,765)	1,711	(8,476)
Net interest income	$(3,670)	$3,999	$(7,669)

(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 nine-months ended September 30:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$12,038	67 %	$4,470	30 %
Real estate construction	(1,865)	(10)	4,341	29
Residential real estate	446	2	1,120	8
Commercial real estate	4,318	24	1,855	12
Loans to individuals	2,266	13	2,074	14
Unallocated	808	4	978	7
Total	$18,011	100 %	$14,838	100 %

The provision for credit losses for the nine-months ended September 30, 2013 increased in comparison to the nine-months ended September 30, 2012, by $3.2 million or 21%. The majority of the 2013 provision expense, or $13.5 million of the $18.0 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 $5.3 million, with a specific reserve of $2.5 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 Pennsylvania and a $1.7 million loan secured by mixed use property in eastern Pennsylvania. The negative provision expense for real estate construction loans can be attributed to a decline in the historical loss percentage used to determine the appropriate level of allowance for credit losses for that category as the previous eight quarter historical loss percentage for real estate construction loans decreased from 13.3% at June 30, 2013 to 8.9% at September 30, 2013. Also impacting provision expense during 2013, is the release 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 release 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 nine months of 2013 exceeded the provision for credit losses due to charge-offs taken on three nonaccrual loans for which the specific reserves were provided for in 2012. This includes a $2.8 million charge-off taken on a loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy, a $2.3 million charge-off taken on a loan to a local energy company and a $2.5 million charge-off for a western Pennsylvania student housing project that paid off during the third quarter of 2013. In addition, the aforementioned loan to a local real estate developer required additional provision expense of $10.4 million.

The allowance for credit losses was $55.0 million, or 1.30%, of total loans outstanding at September 30, 2013, compared to $67.2 million, or 1.60%, at December 31, 2012 and $64.1 million, or 1.52%, at September 30, 2012. The decline compared to December 31, 2012, can be attributed to a $107.9 million, or 37%, decrease in criticized loans, which includes a reduction of $36.3 million, or 34%, in nonperforming loans. Nonperforming loans as a percentage of total loans decreased to 1.68% at September 30, 2013 from 2.56% at December 31, 2012 and 2.23% as of September 30, 2012. The allowance to nonperforming loan ratio was 77%, 62% and 68% as of September 30, 2013, December 31, 2012, and September 30, 2012, respectively.

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

	September 30, 2013	September 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	17,302	4,939	5,207
Real estate construction	773	2,356	3,601
Residential real estate	1,400	2,984	3,828
Commercial real estate	10,051	638	851
Loans to individuals	2,669	2,494	3,482
Total loans charged off	32,195	13,411	16,969
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	345	349	443
Real estate construction	140	121	582
Residential real estate	883	331	422
Commercial real estate	121	256	410
Loans to individuals	465	396	521
Total recoveries	1,954	1,453	2,378
Net credit losses	30,241	11,958	14,591
Provision charged to expense	18,011	14,838	20,544
Balance, end of period	$54,957	$64,114	$67,187

Noninterest Income

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

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Income:				
Trust income	$4,677	$4,780	$(103)	(2)%
Service charges on deposit accounts	11,443	10,975	468	4
Insurance and retail brokerage commissions	4,623	4,938	(315)	(6)
Income from bank owned life insurance	4,219	4,369	(150)	(3)
Card related interchange income	10,214	9,659	555	6
Other income	8,157	9,096	(939)	(10)
Subtotal	43,333	43,817	(484)	(1)
Net securities gains	237	163	74	45
Gain on sale of assets	2,056	4,316	(2,260)	(52)
Derivatives mark to market	1,273	1,126	147	13
Joint venture termination fee	$—	$1,909	$(1,909)	(100)
Total noninterest income	$46,899	$51,331	$(4,432)	(9)%

Noninterest income, excluding net securities gains, gain on sale of assets, the derivative mark to market adjustment and joint venture termination fee decreased $0.5 million, or 1%, for the first nine months of 2013 compared to 2012. The most notable change in this total is the $0.9 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 $4.4 million in comparison to the nine-months ended September 30, 2012. The most significant change includes a $2.3 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 nine-months ended September 30, 2012 compared to gains of $0.6 million recognized on the sale of loans during the same period in 2013. Also contributing to the noninterest income decrease in 2013, is the receipt in 2012 of a $1.9 million joint venture termination fee related to the dissolution of a mortgage banking joint venture with another financial institution.

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

Noninterest Expense

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

	2013	2012	$ Change		% Change	
	(dollars in thousands)					
Noninterest Expense:						
Salaries and employee benefits	$64,288	$65,401	$(1,113	)	(2	)%
Net occupancy expense	10,130	9,942	188		2	
Furniture and equipment expense	9,863	9,326	537		6	
Data processing expense	4,511	5,346	(835	)	(16	)
Pennsylvania shares tax expense	4,223	4,203	20		—	
Intangible amortization	848	1,109	(261	)	(24	)
Collection and repossession expense	2,862	4,650	(1,788	)	(38	)
Other professional fees and services	2,795	3,167	(372	)	(12	)
FDIC insurance	3,312	3,757	(445	)	(12	)
Other operating expenses	17,237	18,216	(979	)	(5	)
Subtotal	120,069	125,117	(5,048	)	(4	)
Loss on sale or write-down of assets	1,009	4,215	(3,206	)	(76	)
Loss on redemption of subordinated debt	1,629	—	1,629		N/A	
Operational losses	790	4,033	(3,243	)	(80	)%
Total noninterest expense	$123,497	$133,365	$(9,868	)	(7	)%

Noninterest expense, excluding loss on sale or write-down of assets, loss on redemption of subordinated debt and operational losses, decreased $5.0 million, or 4%, for the the nine-months ended September 30, 2013 compared to the same period in 2012. The 2013 decrease is largely attributable to lower levels of expenses related to problem credits. Specifically, collection and repossession expense declined $1.8 million, or 38%, as a result of resolving several large credits during the past twelve months.

Salaries and benefits expense decreased $1.1 million in 2013 despite a $1.0 million increase in hospitalization expense, primarily due to a $0.4 million decrease in severance costs and a $0.6 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, pending IRS approval. As a result, there is no longer any compensation expense related to the plan.

Data processing expense decreased $0.8 million as a result of a 2013 change in vendors which provided savings of $0.8 million in ATM/debit card related expenses.

Other operating expenses decreased $1.0 million in 2013, primarily due to a $1.0 million decrease in advertising expense and a $0.4 million decrease in contributions. These decreases were offset by a $0.3 million increase in the expense related to the reserve for unfunded commitments.

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 during the nine-months ended September 30, 2012. There were no material OREO write-downs recognized in the same period 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.

Operational losses decreased $3.2 million in 2013 due to a $3.5 million fraud loss recognized in 2012.

On September 30, 2013, First Commonwealth executed a contract with Jack Henry and Associates to license the Jack Henry and Associates SilverLake System core processing software and to outsource certain data processing services. A system conversion is expected to occur during the second or third quarter of 2014. First Commonwealth will incur approximately $12.0 million of charges related to this conversion. Included in this amount is accelerated depreciation for data processing hardware and software which will be recognized beginning in the fourth quarter of 2013 through the anticipated conversion date. Also included are early termination charges on existing contracts and staffing and employment-related charges which will be recognized as they occur.

Income Tax

The provision for income taxes decreased $0.1 million for the nine-months ended September 30, 2013, compared to the corresponding period in 2012. The lower provision for income taxes was primarily the result of a $1.1 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 nine-months ended September 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 26.3% and 26.0% for the nine-months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, our deferred tax assets totaled $65.8 million. Based on our evaluation as of September 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 September 30, 2013 Compared to Three-Months Ended September 30, 2012

Net Income

For the three-months ended September 30, 2013, First Commonwealth had net income of $15.9 million, or $0.16 per share, compared to net income of $9.8 million or $0.09 per share in the three-months ended September 30, 2012. The increase in net income was primarily the result of a lower provision for credit losses as well as lower noninterest expense.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was $48.3 million in the three-months ended September 30, 2013 compared to $47.7 million for the same period in 2012.

Net interest margin, on a fully taxable equivalent basis, was 3.43% for the three-months ended September 30, 2013 compared to 3.54% for the three-months ended September 30, 2012. The 11 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. During the three-months ended September 30, 2013, $1.0 million in income was recognized on an other-than-temporarily impaired pooled trust preferred security that received a payment during the quarter. This added 8 basis points to the net interest margin for the third quarter of 2013.

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 overall 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 lower yields, as average earning assets for the three-months ended September 30, 2013 increased $224.1 million, or 4%, compared to the comparable period in 2012. However, approximately 69% 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 3.79% for the three-months ended September 30, 2013, a decrease of 29 basis points from the 4.08% 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 0.45% for the three-months ended September 30, 2013, compared to 0.67% for the same period in 2012.

Comparing the three-months ended September 30, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $0.7 million. The lower yield on interest-earning assets adversely impacted net interest income by $3.4 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $2.7 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 $1.2 million in the three-months ended September 30, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $1.8 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 $5.8 million increase in average net free funds at September 30, 2013 as compared to September 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 September 30, 2013 increased $42.8 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 $716.3 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 September 30:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	$52,308	$53,880
Adjustment to fully taxable equivalent basis	1,026	1,054
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	53,334	54,934
Interest expense	5,079	7,230
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$48,255	$47,704

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 September 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	$3,629	$ 2	0.22	%	$6,193	$ 2	0.13	%
Tax-free investment securities (e)	83	2	7.36		92	2	6.77	
Taxable investment securities	1,323,944	8,370	2.51		1,169,191	7,538	2.56	
Loans, net of unearned income (b)(c)	4,258,372	44,960	4.19		4,186,446	47,392	4.50	
Total interest-earning assets	5,586,028	53,334	3.79		5,361,922	54,934	4.08	
Noninterest-earning assets:								
Cash	72,255				75,512			
Allowance for credit losses	(60,061)				(64,902)			
Other assets	564,547				578,344			
Total noninterest-earning assets	576,741				588,954			
Total Assets	$6,162,769				$5,950,876			
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits (d)	$670,813	$ 54	0.03	%	$657,272	$ 64	0.04	%
Savings deposits (d)	1,937,436	645	0.13		1,872,828	977	0.21	
Time deposits	1,144,766	3,051	1.06		1,101,991	4,013	1.45	
Short-term borrowings	547,393	362	0.26		485,754	311	0.25	
Long-term debt	216,733	967	1.77		181,038	1,865	4.10	
Total interest-bearing liabilities	4,517,141	5,079	0.45		4,298,883	7,230	0.67	
Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	885,346				824,784			
Other liabilities	47,932				53,823			
Shareholders' equity	712,350				773,386			
Total noninterest-bearing funding sources	1,645,628				1,651,993			
Total Liabilities and Shareholders' Equity	$6,162,769				$5,950,876			
Net Interest Income and Net Yield on Interest-Earning Assets		$ 48,255	3.43	%		$ 47,704	3.54	%

(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 on tax-free investment securities calculated using fully taxable equivalent interest income of $1,535 and $1,566 for the three months ended September 30, 2013 and 2012, respectively.

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The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three-months ended September 30, 2013 compared with September 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	—	—	—
Taxable investment securities	832	996	(164)
Loans	(2,432)	814	(3,246)
Total interest income (b)	(1,600)	1,809	(3,409)
Interest-bearing liabilities:			
Interest-bearing demand deposits	(10)	1	(11)
Savings deposits	(332)	34	(366)
Time deposits	(962)	156	(1,118)
Short-term borrowings	51	39	12
Long-term debt	(898)	368	(1,266)
Total interest expense	(2,151)	598	(2,749)
Net interest income	$551	$1,211	$(660)

(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 September 30:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$1,358	50 %	$(25)	— %
Real estate construction	(1,879)	(69)	2,848	42
Residential real estate	84	3	566	8
Commercial real estate	1,501	55	2,823	42
Loans to individuals	838	31	635	9

Unallocated	812	30	(93)	(1)
Total	$2,714	100 %	$6,754	100 %

The provision for credit losses for the three-months ended September 30, 2013 decreased in comparison to the three-months ended September 30, 2012, by $4.0 million or 60%. The majority of the provision for credit losses during the three-months ended September 30, 2012, is the result of a $3.3 million specific reserve recognized on a $6.7 million commercial real estate loan to a western Pennsylvania in-patient facility. The negative provision expense for real estate construction loans can be attributed to a decline in the historical loss percentage used to determine the appropriate level of allowance for credit losses for that category as the previous eight quarter historical loss percentage for real estate construction loans decreased from 13.3% at June 30, 2013 to 8.9% at September 30, 2013. There were no large individual specific reserves recognized during the same period of 2013. Credit losses in the third quarter exceeded the provision for credit losses due to a $2.3 million charge-off of the full balance of a commercial industrial loan to a local energy company.

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

	September 30, 2013	September 30, 2012	June 30, 2013
	(dollars in thousands)		
Balance, beginning of period	$57,452	$61,676	$62,262
Loans charged off:			
Commercial, financial, agricultural and other	3,081	1,271	13,683
Real estate construction	18	2,016	671
Residential real estate	757	530	321
Commercial real estate	813	97	694
Loans to individuals	914	756	767
Total loans charged off	5,583	4,670	16,136
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	81	74	136
Real estate construction	81	29	47
Residential real estate	71	49	89
Commercial real estate	13	70	11
Loans to individuals	128	132	243
Total recoveries	374	354	526
Net credit losses	5,209	4,316	15,610
Provision charged to expense	2,714	6,754	10,800
Balance, end of period	$54,957	$64,114	$57,452

Noninterest Income

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

	2013	2012	$ Change		% Change	
	(dollars in thousands)					
Noninterest Income:						
Trust income	$1,406	$1,631	$(225	)	(14	)%
Service charges on deposit accounts	4,227	3,736	491		13	
Insurance and retail brokerage commissions	1,822	1,844	(22	)	(1	)
Income from bank owned life insurance	1,359	1,465	(106	)	(7	)
Card related interchange income	3,536	3,260	276		8	
Other income	2,942	2,715	227		8	
Subtotal	15,292	14,651	641		4	
Net securities gains	229	163	66		40	
Gain on sale of assets	1,356	757	599		79	
Derivatives mark to market	206	375	(169	)	(45	)
Joint venture termination fee	$—	$1,909	$(1,909	)	(100	)%
Total noninterest income	$17,083	$17,855	$(772	)	(4	)%

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Noninterest income, excluding net securities gains, gain on sale of assets, the derivative mark to market adjustment and the joint venture termination fee increased $0.6 million, or 4%, for the three-months ended September 30, 2013 compared to the same period in 2012.

Total noninterest income decreased $0.8 million in comparison to the three-months ended September 30, 2012. The most significant change in noninterest income, in addition to the aforementioned changes, was the $1.9 million joint venture termination fee received during the three-months ended September 30, 2012. There was no similar income received during the same period in 2013.

Noninterest Expense

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

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Expense:				
Salaries and employee benefits	$20,998	$21,280	$(282)	(1)%
Net occupancy expense	3,274	3,235	39	1
Furniture and equipment expense	3,294	3,118	176	6
Data processing expense	1,492	1,987	(495)	(25)
Pennsylvania shares tax expense	1,516	1,510	6	—
Intangible amortization	193	367	(174)	(47)
Collection and repossession expense	860	1,281	(421)	(33)
Other professional fees and services	878	1,028	(150)	(15)
FDIC insurance	1,178	1,258	(80)	(6)
Other operating expenses	5,645	5,618	27	—
Subtotal	39,328	40,682	(1,354)	(3)
Loss on sale or write-down of assets	479	426	53	12
Operational losses	238	3,657	(3,419)	(93)
Total noninterest expense	$40,045	$44,765	$(4,720)	(11)%

Noninterest expense before loss on sale or write-down of assets and operational losses decreased $1.4 million, or 3%, when comparing the three-months ended September 30, 2013 to the same period in 2012 .

The $0.5 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. The $0.4 million decrease in collection and repossession expense is due to the lower level of expenses related to recovering problem credits.

Also contributing to the lower level of expense in 2013 is the $3.5 million operational loss experienced by the Company during the three-months ended September 30, 2012.

Income Tax

The provision for income taxes increased $2.6 million for the three-months ended September 30, 2013, compared to the corresponding period in 2012. The higher provision for income taxes was primarily the result of a $8.6 million increase 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 September 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 26.4% and 24.2% for the three-months ended September 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 nine months of 2013, liquidity provided from the $59.9 million increase in deposits and proceeds of $20.8 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 September 30, 2013, our maximum borrowing capacity under this program was $918.3 million and as of that date there was $256.0 million outstanding. Also included in this amount is a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of September 30, 2013, our outstanding certificates of deposits from this program have an average weighted rate of 0.29% and an average original term of 210 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 September 30, 2013, the borrowing capacity under this program totaled $802.6 million and there were no amounts outstanding.

As of September 30, 2013, our maximum borrowing capacity at the FHLB of Pittsburgh was $1.5 billion and as of that date amounts used against this capacity included $554.6 million in outstanding borrowings and $29.0 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 September 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:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Noninterest-bearing demand deposits	$908,436	$883,269
Interest-bearing demand deposits	96,587	97,963
Savings deposits	2,491,315	2,543,990
Time deposits	1,121,463	1,032,659
Total	$4,617,801	$4,557,881

During the first nine months of 2013, total deposits increased $59.9 million due to a $88.8 million increase in time deposits, offset by a decrease of $54.1 million in interest-bearing and savings deposits. The increase in time deposits is due to growth in wholesale certificates of deposits of $185.8 million offset by a decline in core certificates of deposit of $80.7 million. Wholesale certificates currently offer a more attractive source of incremental funding as they generally have a lower incremental 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 0.71 and 0.76 at September 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

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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 not the sensitivity each has to changes in interest rates. The impact of the sensitivity to changes in interest rates is provided in the table below the gap analysis. The following is the gap analysis as of September 30, 2013 and December 31, 2012:

	September 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	$1,975,004	$170,816	$340,574	$2,486,394	$1,398,196	$293,430
Investments	77,482	93,613	138,225	309,320	605,667	400,212
Other interest-earning assets	5,077	—	—	5,077	—	—
Total interest-sensitive assets (ISA)	2,057,563	264,429	478,799	2,800,791	2,003,863	693,642
Certificates of Deposit	359,377	117,427	239,486	716,290	397,103	8,070
Other deposits	2,587,902	—	—	2,587,902	—	—
Borrowings	623,910	117	32,684	656,711	106,168	5,417
Total interest-sensitive liabilitites (ISL)	3,571,189	117,544	272,170	3,960,903	503,271	13,487
Gap	$(1,513,626)	$146,885	$206,629	$(1,160,112)	$1,500,592	$680,155
ISA/ISL	0.58	2.25	1.76	0.71	3.98	51.43
Gap/Total assets	24.61 %	2.39 %	3.36 %	18.86 %	24.40 %	11.06 %

	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.

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	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
September 30, 2013	$(8,563)	$(4,394)	$(703)	$(513)
December 31, 2012	(8,204)	(4,767)	459	2,153

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 nine-months ended September 30, 2013 and 2012, the cost of our interest-bearing liabilities averaged 0.50% and 0.73%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.81% and 4.22%, 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 nine months of 2013, fifty-seven loans totaling $8.0 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 on nonaccrual status when, based on regulatory definitions, the loan is maintained on a "cash basis" due to the weakened financial condition of the borrower. Generally, loans 90 days or more past due are placed on nonaccrual status, except for consumer loans which are placed on nonaccrual status at 150 days past due.

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

The allowance for credit losses was $55.0 million at September 30, 2013 or 1.30% of total loans outstanding compared to 1.60% reported at December 31, 2012 and 1.52% at September 30, 2012. The decline in the September 30, 2013 ratio when compared to December 31, 2012 can be attributed to an $9.5 million decline in specific reserves on nonperforming loans, primarily due to charge-offs taken during the quarter. In addition, nonperforming balances decreased $36.3 million during 2013. Criticized loans totaled $180.6 million at September 30, 2013 and represented 4% of the loan portfolio. The level of criticized loans decreased as of September 30, 2013 when compared to December 31, 2012, by $107.9 million, or 37%. Delinquency on accruing loans for the same period decreased $9.5 million, or 44%.

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The allowance for credit losses as a percentage of nonperforming loans was 77.17% as of September 30, 2013 compared to 62.47% at December 31, 2012 and 68.27% at September 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 $8.2 million related to nonperforming loans covering 12% of the total nonperforming balance. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at September 30, 2013.

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

	September 30 2013			2012			December 31, 2012		
	(dollars in thousands)								
Nonperforming Loans:									
Loans on nonaccrual basis	$42,122			$40,704			$43,539		
Troubled debt restructured loans on nonaccrual basis	17,807			46,026			50,979		
Troubled debt restructured loans on accrual basis	11,290			7,176			13,037		
Total nonperforming loans	$71,219			$93,906			$107,555		
Loans past due in excess of 90 days and still accruing	$2,364			$2,998			$2,447		
Other real estate owned	$9,656			$16,016			$11,262		
Loans outstanding at end of period	$4,240,004			$4,214,299			$4,204,704		
Average loans outstanding	$4,248,048		(a)	$4,148,937		(a)	$4,165,292		(b)
Nonperforming loans as a percentage of total loans	1.68	%		2.23	%		2.56	%	
Provision for credit losses	$18,011		(a)	$14,838		(a)	$20,544		(b)
Allowance for credit losses	$54,957			$64,114			$67,187		
Net charge-offs	$30,241		(a)	$11,958		(a)	$14,591		(b)
Net charge-offs as a percentage of average loans outstanding (annualized)	0.95	%		0.38	%		0.35	%	
Provision for credit losses as a percentage of net charge-offs	59.56	%	(a)	124.08	%	(a)	140.80	%	(b)
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.30	%		1.52	%		1.60	%	
Allowance for credit losses as a percentage of nonperforming loans	77.17	%		68.27	%		62.47	%	

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

Nonperforming loans decreased $36.3 million to $71.2 million at September 30, 2013 compared to $107.6 million at December 31, 2012. Contributing to this decrease was $21.2 million in charge-offs recognized on four 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, $3.0 million for a commercial real estate loan to a western Pennsylvania student housing project paid off in the third quarter, $2.3 million for a commercial industrial loan to a local energy company 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 nine months of 2013.

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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:

	September 30, 2013			December 31, 2012		
	Amount	%		Amount	%	
	(dollars in thousands)					
Commercial, financial, agricultural and other	$1,008,316	24	%	$1,019,822	24	%
Real estate construction	74,025	2		87,438	2	
Residential real estate	1,280,990	30		1,241,565	30	
Commercial real estate	1,272,366	30		1,273,661	30	
Loans to individuals	604,307	14		582,218	14	
Total loans and leases net of unearned income	$4,240,004	100	%	$4,204,704	100	%

During the nine-months ended September 30, 2013, loans increased $35.3 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 nine-months ended September 30, 2013 totaled $30.2 million compared to $12.0 million for the nine-months ended September 30, 2012. As previously noted, the most significant charge-offs during the nine-months ended September 30, 2013 were $21.2 million charge-offs recognized on four commercial loans and a $3.1 million charge-off recognized upon transfer of two loans to held for sale. During the nine-months ended September 30, 2012, the most significant charge-off s were a $1.2 million charge taken on a $2.0 million commercial loan and a $1.4 million charge-off on a Florida real estate construction loan with a $4.3 million remaining balance.

	For the Nine-Months Ended September 30, 2013					As of September 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	$16,957	56.07	%	0.53	%	$26,739	37.55	%	0.63	%
Real estate construction	633	2.09		0.02		4,117	5.78		0.10	
Residential real estate	517	1.71		0.02		12,899	18.11		0.30	
Commercial real estate	9,930	32.84		0.31		27,207	38.20		0.64	
Loans to individuals	2,204	7.29		0.07		257	0.36		0.01	
Total loans, net of unearned income	$30,241	100.00	%	0.95	%	$71,219	100.00	%	1.68	%

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

Capital Resources

At September 30, 2013, shareholders' equity was $711.4 million, a decrease of $34.7 million from December 31, 2012. The decrease was primarily the result of $32.2 million net income offset by $30.0 million of common stock repurchases, $16.6 million of dividends paid to shareholders and decreases of $20.7 million in the fair value of available for sale investments. Cash dividends declared per common share were $0.17 and $0.13 for the nine-months ended September 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 September 30, 2013, First Commonwealth and its banking subsidiary met all capital adequacy requirements to which they are subject.
As of September 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	$646,165	13.22 %	$390,915	8.00 %		
First Commonwealth Bank	622,142	12.73	390,934	8.00	$488,667	10.00 %
Tier I Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$588,560	12.04 %	$195,458	4.00 %		
First Commonwealth Bank	564,537	11.55	195,467	4.00	$293,200	6.00 %
Tier I Capital to Average Assets						
First Commonwealth Financial Corporation	$588,560	9.84 %	$239,282	4.00 %		
First Commonwealth Bank	564,537	9.50	237,678	4.00	$297,098	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 67 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 September 30, 2013, 9,821,489 shares were repurchased under these programs at an average price of $6.86 per share.

On October 23, 2013, First Commonwealth Financial Corporation declared a quarterly dividend of $0.06 per share payable on November 15, 2013 to shareholders of record as of November 4, 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.

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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.

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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 with the exception of the following.

First Commonwealth Bank will be completing a transition to a new core processing system. If we are not able to complete the transition as planned, or unanticipated events occur during the transition, our operations, net income, or reputation could be adversely affected.

First Commonwealth Bank will be transitioning to a new core processing system over twelve months. The core processing system is used to maintain customer and account records, reflect account transactions and activity, and support our customer relationship management systems for substantially all of our deposit and loan customers. The Company has assembled a team of officers and employees representing key business units and functional areas throughout the Company to plan and oversee the transition process. This team, working with the vendor for the core processing system and outside project management consultants, has developed a comprehensive work plan for completing the transition. Extensive pre-conversion testing of, and employee training in, processing routines and new core processing system operation will be conducted before the Bank is transitioned to the new core processing system.

If we are not able to complete the transition to the new core processing system as expected in accordance with the work plan, or if unanticipated events occur during or following the transition, First Commonwealth Bank may not be able to timely process transactions for its customers, those customers may not be able to complete transactions in or affecting their accounts that are maintained on the core processing system, or the Bank may not be able to perform contractual and other obligations to its customers or other parties. Should any of these consequences occur, the Company may incur additional expense in its financial and regulatory reporting, in processing or re-processing transactions, and First Commonwealth Bank may not be able to meet customer expectations for transaction processing and customer service, customers may close their accounts with us, and we may incur liability under contractual or other arrangements with customers or other parties. Any of these events, should they occur, could have a material and adverse impact on the Company’s operations, net income, reputation or the trading price of the Company’s common stock, as well as expose the Company to civil liability or regulatory sanctions.

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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 third 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*
July 31, 2013	0	$0.00	0	1,911,126
August 31, 2013	—	—	—	1,958,057
September 30, 2013	900,396	7.50	900,396	1,001,146
Total	900,396	$7.50	900,396	

* Remaining number of shares approved under the Plan is based on the market value of the Company's common stock of $7.51 at July 31, 2013, $7.33 at August 31, 2013 and $7.59 at September 30, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.
ITEM 4. MINE SAFETY DISCLOSURES
Not applicable
ITEM 5. OTHER INFORMATION
None

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
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ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	The following materials from First Commonwealth Financial Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2013 and 2012, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements.	Filed herewith

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SIGNATURES

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

FIRST COMMONWEALTH FINANCIAL CORPORATION
(Registrant)

DATED: November 12, 2013	/s/ T. Michael Price T. Michael Price President and Chief Executive Officer
DATED: November 12, 2013	/s/ Robert E. Rout Robert E. Rout Executive Vice President, Chief Financial Officer and Treasurer