FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-K
March 03, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 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	25-1428528
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 PHILADELPHIA STREET INDIANA, PA	15701
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (724) 349-7220
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $1 PAR VALUE	NEW YORK STOCK EXCHANGE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. ¨

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 x Accelerated filer ¨ Non-accelerated filer ¨ 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 aggregate market value of the voting and non-voting common stock, par value $1 per share, held by non-affiliates of the registrant (based upon the closing sale price on June 30, 2013) was approximately $700,502,967.

The number of shares outstanding of the registrant’s common stock, $1.00 Par Value as of February 28, 2014, was 94,206,690.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the annual meeting of shareholders to be held April 22, 2014 are incorporated by reference into Part III.

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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, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, among others, statements regarding our strategy, evaluations of our asset quality, future interest rate trends and liquidity, prospects for growth in assets and prospects for future operating results. Forward-looking statements can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or words of similar meaning, or future or conditional verbs such “will,” “would,” “should,” “could” or “may.” Forward-looking statements are based on assumptions of management and are or expectations of future results. You should not place undue reliance on our forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements as a result of, among others, the risk factors described in Item 1A of this report. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

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ITEM 1. Business

Overview

First Commonwealth Financial Corporation (“First Commonwealth” or “we”) is a financial holding company that is headquartered in Indiana, Pennsylvania. We provide a diversified array of consumer and commercial banking services through our bank subsidiary, First Commonwealth Bank (“FCB” or the “Bank”). We also provide trust and wealth management services and offer insurance products through FCB and our other operating subsidiaries. At December 31, 2013, we had total assets of $6.2 billion, total loans of $4.3 billion, total deposits of $4.6 billion and shareholders’ equity of $711.7 million. Our principal executive office is located at 601 Philadelphia Street, Indiana, Pennsylvania 15701, and our telephone number is (724) 349-7220.

FCB is a Pennsylvania bank and trust company. At December 31, 2013, the Bank operated 110 community banking offices throughout western and central Pennsylvania and a loan production office in downtown Pittsburgh, Pennsylvania. During the fourth quarter of 2014, an additional loan production office is scheduled to open in Cleveland, Ohio. The largest concentration of our branch offices is located within the greater Pittsburgh metropolitan area in Allegheny, Butler, Washington and Westmoreland counties, while our remaining offices are located in smaller cities, such as Altoona, Johnstown, and Indiana, Pennsylvania, and in towns and villages throughout predominantly rural counties. The Bank also operates a network of 115 automated teller machines, or ATMs, at various branch offices and offsite locations. All of our ATMs are part of the NYCE and MasterCard/Cirrus networks, both of which operate nationwide. The Bank is a member of the Allpoint ATM network which allows surcharge-free access to over 55,000 ATMs. The Bank is also a member of the “Freedom ATM Alliance,” which affords cardholders surcharge-free access to a network of over 670 ATMs in over 50 counties in Pennsylvania, Maryland, New York, West Virginia and Ohio.

Historical and Recent Developments

FCB began in 1934 as First National Bank of Indiana with initial capitalization of $255 thousand. First National Bank of Indiana changed its name to National Bank of the Commonwealth in 1971 and became a subsidiary of First Commonwealth in 1983.

Since the formation of the holding company in 1983, we have grown steadily through the acquisition of smaller banks and thrifts in our market area, including Deposit Bank in 1984, Dale National Bank and First National Bank of Leechburg in 1985, Citizens National Bank of Windber in 1986, Peoples Bank and Trust Company in 1990, Central Bank in 1992, Peoples Bank of Western Pennsylvania in 1993, Unitas National Bank and Reliable Savings Bank in 1994. In 1995, we merged all of our banking subsidiaries (other than Reliable Savings Bank) into Deposit Bank and renamed the resulting institution “First Commonwealth Bank.” We then merged Reliable Savings Bank into FCB in 1997. We acquired Southwest Bank in 1998 and merged it into FCB in 2002.

We expanded our presence in the Pittsburgh market through the acquisitions of Pittsburgh Savings Bank (dba BankPittsburgh) in 2003, Great American Federal in 2004 and Laurel Savings Bank in 2006. These acquisitions added 27 branches in Allegheny and Butler Counties.

In recent years, we have primarily focused on organic growth, improving the reach of our franchise and the breadth of our product offering. As part of this strategy, we have opened fourteen de novo branches since 2005, all of which are in the greater Pittsburgh area. As a result of our acquisition and de novo strategy, FCB operates 61 branches in the Pittsburgh metropolitan statistical area and currently ranks ninth in deposit market share.

Competition

The banking and financial services industry is extremely competitive in our market area. We face vigorous competition for customers, loans and deposits from many companies, including commercial banks, savings and loan associations, finance companies, credit unions, trust companies, mortgage companies, money market mutual funds, insurance companies, and brokerage and investment firms. Many of these competitors are significantly larger than us, have greater resources, lending limits and larger branch systems and offer a wider array of financial services than us. In addition, some of these competitors, such as credit unions, are subject to a lesser degree of regulation than that imposed on us.

Employees

At December 31, 2013, First Commonwealth and its subsidiaries employed 1,256 full-time employees and 181 part-time employees.

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Supervision and Regulation

The following discussion sets forth the material elements of the regulatory framework applicable to financial holding companies and their subsidiaries and provides certain specific information relevant to First Commonwealth and its subsidiaries. The regulatory framework is intended primarily for the protection of depositors, other customers and the federal deposit insurance fund and not for the protection of security holders. The rules governing the regulation of financial institutions and their holding companies are very detailed and technical. Accordingly, the following discussion is general in nature and is not intended to be complete or to describe all the laws and regulations that apply to First Commonwealth and its subsidiaries. A change in applicable statutes, regulations or regulatory policy may have a material adverse effect on our business, financial condition or results of operations.

Regulatory Reforms

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. Although the Dodd-Frank Act’s provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions such as bank holding companies with total consolidated assets of $50 billion or more, it contains numerous other provisions that affect all bank holding companies and banks, including First Commonwealth and FCB, some of which are described in more detail below.

Many of the Dodd-Frank Act’s provisions are subject to final rulemaking by the U.S. financial regulatory agencies, and the implications of the Dodd-Frank Act for First Commonwealth’s businesses will depend to a large extent on how such rules are adopted and implemented by the primary U.S. financial regulatory agencies. First Commonwealth continues to analyze the impact of rules adopted under Dodd-Frank, on its businesses. However, the full impact will not be known until the rules, and other regulatory initiatives that overlap with the rules, are finalized and their combined impacts can be understood.

Bank Holding Company Regulation

First Commonwealth is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (“FRB”).

Acquisitions. Under the BHC Act, First Commonwealth is required to obtain the prior approval of the FRB before it can merge or consolidate with any other bank holding company or acquire all or substantially all of the assets of any bank that is not already majority owned by it or acquire direct or indirect ownership, or control of, any voting shares of any bank that is not already majority owned by it, if after such acquisition it would directly or indirectly own or control more than 5% of the voting shares of such bank. Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act (“CRA”) ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions and open branch offices.

Non-Banking Activities. First Commonwealth is generally prohibited under the BHC Act from engaging in, or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public that outweigh the possible adverse effects.

Reporting. Under the BHC Act, First Commonwealth is subject to examination by the FRB and is required to file periodic reports and other information of its operations with the FRB. In addition, under the Pennsylvania Banking Code of 1965, the Pennsylvania Department of Banking has the authority to examine the books, records and affairs of any Pennsylvania bank holding company or to require any documentation deemed necessary to ensure compliance with the Pennsylvania Banking Code.

Source of Strength Doctrine. FRB policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) codifies this policy as a statutory requirement. Under this requirement, First Commonwealth is expected to commit resources to support FCB, including at times when First Commonwealth may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Affiliate Transactions. Transactions between FCB, on the one hand, and First Commonwealth and its other subsidiaries, on the other hand, are regulated by the Federal Reserve Board. These regulations limit the types and amounts of covered transactions

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engaged in by FCB and generally require those transactions to be on an arm's-length basis. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, these regulations require that any such transaction by FCB (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

SEC Regulations. First Commonwealth is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and various state securities commissions for matters relating to the offer and sale of its securities and is subject to the SEC rules and regulations relating to periodic reporting, proxy solicitation and insider trading.

Bank Regulations

FCB is a state bank chartered under the Pennsylvania Banking Code and is not a member of the FRB. As such, FCB is subject to the supervision of, and is regularly examined by, both the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking and is required to furnish quarterly reports to both agencies. The approval of the Pennsylvania Department of Banking and FDIC is also required for FCB to establish additional branch offices or merge with or acquire another banking institution.

Restrictions on Dividends. The Pennsylvania Banking Code states, in part, that dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus is at least equal to capital. Dividends may not reduce surplus without the prior consent of the Pennsylvania Department of Banking. FCB has not reduced its surplus through the payment of dividends.

The FDIC also prohibits the declaration or payout of dividends at a time when FCB is in default in payment of any assessment due the FDIC. In addition, supervisory guidance issued by the FRB requires, among other things, that a company must consult with the FRB in advance of paying a dividend that exceeds earnings for the quarter for which the dividend is paid or that could result in a material adverse change to the company's capital structure. The guidance also states that a company should, as a general matter, eliminate, defer or severely limit its dividend if (1) the company's net income for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividend; (2) the company's prospective rate of earnings retention is not consistent with the company's capital needs and current and prospective financial condition; or (3) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Community Reinvestment. Under the Community Reinvestment Act, or CRA, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the applicable regulatory agency to assess an institution's record of meeting the credit needs of its community. The CRA requires public disclosure of an institution's CRA rating and requires that the applicable regulatory agency provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. For its most recent examination, FCB received a "satisfactory" rating.

Consumer Protection Laws. The operations of FCB are also subject to numerous federal, state and local consumer protection laws and regulations including the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act and Home Mortgage Disclosure Act. Among other things, these acts:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
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require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;

- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

Deposit Insurance. Deposits of FCB are insured up to applicable limits by the FDIC and are subject to deposit insurance assessments to maintain the Deposit Insurance Fund (“DIF”). Deposit insurance assessments are based upon average total assets minus average total equity. The insurance assessments are based upon a matrix that takes into account a bank’s capital level and supervisory rating. The FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and

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unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The prepaid assessment was refunded during the second quarter of 2013 and no longer has a balance in the accompanying Statements of Financial Condition.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

Capital Requirements

As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the FRB. FCB is subject to similar capital requirements administered by the FDIC and the Pennsylvania Department of Banking. The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the requirements, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories.

A depository institution's or holding company's capital, in turn, is classified in one of two tiers, depending on type:

- Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities, less goodwill, most intangible assets and certain other assets.
- Supplementary Capital (Tier 2). Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

First Commonwealth, like other bank holding companies, currently is required to maintain Tier 1 capital and "total capital" (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as letters of credit). FCB, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The minimum leverage ratio is 3.0% for bank holding companies and depository institutions that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other bank holding companies and depository institutions are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

As of December 31, 2013, FCB was a "well-capitalized" bank as defined by the FDIC. See Note 26 "Regulatory Restrictions and Capital Adequacy" of Notes to the Consolidated Financial Statements, contained in Item 8, for a table that provides a comparison of First Commonwealth's and FCB's risk-based capital ratios and the leverage ratio to minimum regulatory requirements.

In July 2013, the FRB, the FDIC and other bank regulatory agencies published the Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding

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companies and depository institutions compared to the current U.S. risk-based capital rules. The Basel III Capital Rules, among other things:

- introduce a new capital measure called “Common Equity Tier 1” (“CET1”);
- define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital;
- specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements; and
- expand the scope of the deductions/adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require First Commonwealth and FCB to maintain:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation);
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);
- a minimum ratio of Total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and
- a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, smaller banking organizations, including First Commonwealth and FCB, may make a one-time permanent election to continue to exclude these items.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules also revise the “prompt corrective action” capital requirements described above. The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

Management believes that, as of December 31, 2013, First Commonwealth and FCB would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (“NSFR”), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. In October 2013, the federal banking agencies proposed rules that would implement the LCR for banking organizations that follow the “advanced approach” to calculating capital and a separate version for banking organizations with consolidated assets

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of greater than $50 billion, neither of which would apply to First Commonwealth or FCB. The federal banking agencies have not yet proposed rules to implement the NSFR.

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as FCB. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Availability of Financial Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Our SEC filings are also available to the public on the SEC website at www.sec.gov and on our website at www.fcbanking.com.

We also make available on our website, www.fcbanking.com, and in print to any shareholder who requests them, our Corporate Governance Guidelines, the charters for our Audit, Risk, Compensation and Human Resources, and Governance Committees, and the Code of Conduct and Ethics that applies to all of our directors, officers and employees.

Our Chief Executive Officer has certified to the New York Stock Exchange ("NYSE") that, as of the date of the certification, he was not aware of any violation by First Commonwealth of NYSE's corporate governance listing standards. In addition, our Chief Executive Officer and Chief Financial Officer have made certain certifications concerning the information contained in this report pursuant to Section 302 of the Sarbanes-Oxley Act. The Section 302 certifications appear as Exhibits 31.1 and 31.2 to this annual report on Form 10-K.

ITEM 1A. Risk Factors

As a financial services company, we are subject to a number of risks, many of which are outside of our control. These risks include, but are not limited to:

Changes in interest rates could negatively impact our financial condition and results of operations.

Our results of operations depend substantially on net interest income, which is the difference between interest earned on interest-earning assets (such as investments and loans) and interest paid on interest-bearing liabilities (such as deposits and borrowings). Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply, and other factors beyond our control may also affect interest rates. If our interest-earning assets mature or reprice more quickly than interest-bearing liabilities in a declining interest rate environment, net interest income could be adversely impacted. Likewise, if interest-bearing liabilities mature or reprice more quickly than interest-earnings assets in a rising interest rate environment, net interest income could be adversely impacted.

Changes in interest rates also can affect the value of loans and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows.

We are subject to extensive government regulation and supervision.

Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or

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implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. See "Supervision and Regulation" included in Item 1. Business for a more detailed description of the Dodd-Frank Act and other regulatory requirements applicable to First Commonwealth.

We 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.

We will be transitioning to a new core processing system during 2014. 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. First Commonwealth 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 FCB 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, FCB 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 FCB may not be able to perform contractual and other obligations to its customers or other parties. Should any of these consequences occur, First Commonwealth may incur additional expense in its financial and regulatory reporting, in processing or re-processing transactions, and FCB 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 First Commonwealth's shares, as well as expose the Company to civil liability or regulatory sanctions.

Declines in real estate values could adversely affect our earnings and financial condition.

As of December 31, 2013, approximately 62% of our loans were secured by real estate. These loans consist of residential real estate loans (approximately 30% of total loans), commercial real estate loans (approximately 30% of total loans) and real estate construction loans (approximately 2% of total loans). During the economic recession in 2008, declines in real estate values and weak demand for new construction, particularly outside of our core Pennsylvania market, caused deterioration in our loan portfolio and adversely impacted our financial condition and results of operations. Additional declines in real estate values, both within and outside of Pennsylvania, could adversely affect the value of the collateral for these loans, the ability of borrowers to make timely repayment of these loans and our ability to recoup the value of the collateral upon foreclosure, further impacting our earnings and financial condition.

Our earnings are significantly affected by general business and economic conditions.

Our operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance and the strength of the United States economy, all of which are beyond our control. A deterioration in economic conditions could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our financial condition and results of operations.

Our allowance for credit losses may be insufficient.

All borrowers carry the potential to default and our remedies to recover may not fully satisfy money previously loaned. We maintain an allowance for credit losses, which is a reserve established through a provision for credit losses charged to expense, which represents management's best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is adequate to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance for credit losses reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic conditions; and unidentified losses in the current loan portfolio. The determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for credit losses or the recognition of additional loan charge-offs, based on judgments different than those of management. An increase in the allowance for credit losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our financial condition and results of operations.

Acts of cyber-crime may compromise client and company information, disrupt access to our systems or result in loss of client or company assets.

Our business is dependent upon the availability of technology, the Internet and telecommunication systems to enable financial transactions by clients, record and monitor transactions and transmit and receive data to and from clients and third parties. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by clients and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our clients' devices have been subject to, and are likely to continue to be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, the theft of client assets through fraudulent transactions or disruption of our or our clients' or other third parties' business operations.

We have a significant deferred tax asset and cannot assure it will be fully realized.

We had net deferred tax assets of $63.2 million as of December 31, 2013. We did not establish a valuation allowance against our federal net deferred tax assets as of December 31, 2013 as we believe that it is more likely than not that all of these assets will be realized. In evaluating the need for a valuation allowance, we estimated future taxable income based on management approved forecasts. This process required significant judgment by management about matters that are by nature uncertain. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material adverse effect on our results of operations and financial condition.

We must evaluate whether any portion of our recorded goodwill is impaired. Impairment testing may result in a material, non-cash write-down of our goodwill assets and could have a material adverse impact on our results of operations.

At December 31, 2013, goodwill represented approximately 3% of our total assets. We have recorded goodwill because we paid more for some of our businesses than the fair market value of the tangible and separately measurable intangible net assets of those businesses. We test our goodwill and other intangible assets with indefinite lives for impairment at least annually (or whenever events occur which may indicate possible impairment). Goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value exceeds the carrying amount, goodwill of the reporting unit is not considered impaired. If the fair value of the reporting unit is less than the carrying amount, goodwill is considered impaired. Determining the fair value of our company requires a high degree of subjective management assumptions. Any changes in key assumptions about our business and its prospects, changes in market conditions or other externalities, for impairment testing purposes could result in a non-cash impairment charge and such a charge could have a material adverse effect on our consolidated results of operations. The challenges of the current economic environment may adversely affect our earnings, the fair value of our assets and liabilities and our stock price, all of which may increase the risk of goodwill impairment.

We have significant exposure to a downturn in the financial services industry due to our investments in trust preferred securities.

As of December 31, 2013, we had single issuer trust preferred securities and trust preferred collateralized debt obligations with an aggregate book value of $48.7 million and an unrealized loss of approximately $18.2 million. These securities were issued by banks, bank holding companies and other financial services providers. Depending on the severe economic recession and its impact on the financial services industry, we may be required to record additional impairment charges on other investment securities if they suffer a decline in value that is considered other-than-temporary. If the credit quality of the securities in our investment portfolio deteriorates, we may also experience a loss in interest income from the suspension of either interest or dividend payments. Numerous factors, including lack of liquidity for resales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate or adverse actions by regulators could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the

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ability of FCB to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios and result in us not being classified as "well-capitalized" for regulatory purposes.

First Commonwealth relies on dividends from its subsidiaries for most of its revenues.

First Commonwealth is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenues from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on First Commonwealth's common stock and interest and principal on First Commonwealth's debt. Various federal and/or state laws and regulations limit the amount of dividends that FCB and certain non-bank subsidiaries may pay to First Commonwealth. In the event FCB is unable to pay dividends to First Commonwealth, First Commonwealth may not be able to service debt, pay obligations or pay dividends on its common stock. The inability to receive dividends from FCB could have a material adverse effect on First Commonwealth's business, financial condition and results of operations.

Competition from other financial institutions in originating loans, attracting deposits and providing various financial services may adversely affect our profitability.

We face substantial competition in originating loans and attracting deposits. This competition comes principally from other banks, savings institutions, mortgage banking companies and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, better brand recognition, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. These competitors may offer more favorable pricing through lower interest rates on loans or higher interest rates on deposits, which could force us to match competitive rates and thereby reduce our net interest income.

Negative publicity could damage our reputation.

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Because we conduct all of our business under the "First Commonwealth" brand, negative public opinion about one business could affect our other businesses.

An interruption to our information systems could adversely impact our operations.

We rely upon our information systems for operating and monitoring all major aspects of our business, including deposit and loan operations, as well as internal management functions. These systems and our operations could be damaged or interrupted by natural disasters, power loss, network failure, improper operation by our employees, security breaches, computer viruses, intentional attacks by third parties or other unexpected events. Any disruption in the operation of our information systems could adversely impact our operations, which may affect our financial condition, results of operations and cash flows.

Provisions of our articles of incorporation, bylaws and Pennsylvania law, as well as state and federal banking regulations, could delay or prevent a takeover of us by a third party.

Provisions in our articles of incorporation and bylaws, the corporate law of the Commonwealth of Pennsylvania, and state and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our common stock. These provisions include, among other things, advance notice requirements for proposing matters that shareholders may act on at shareholder meetings. In addition, under Pennsylvania law, we are prohibited from engaging in a business combination with any interested shareholder for a period of five years from the date the person became an interested shareholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock.

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

Our principal office is located in the old Indiana County courthouse complex, consisting of the former courthouse building and the former sheriff's residence and jail building for Indiana County. This certified Pennsylvania and national historic landmark was built in 1870 and restored by us in the early 1970s. We lease the complex from Indiana County pursuant to a lease agreement that was originally signed in 1973 and has a current term that expires in 2048. The majority of our administrative personnel are also located in two owned buildings and one leased premise in Indiana, Pennsylvania, each of which is in close proximity to our principal office.

First Commonwealth Bank has 110 banking offices of which 23 are leased and 87 are owned. We also lease two loan production office.

While these facilities are adequate to meet our current needs, available space is limited and additional facilities may be required to support future expansion. However, we have no current plans to lease, purchase or construct additional administrative facilities.

ITEM 3. Legal Proceedings

The information required by this Item is set forth in Part II, Item 8, Note 24, "Contingent Liabilities," which is incorporated herein by reference in response to this item.

ITEM 4. Mine Safety Disclosures

Not applicable

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Executive Officers of First Commonwealth Financial Corporation

The name, age and principal occupation for each of the executive officers of First Commonwealth Financial Corporation as of December 31, 2013 is set forth below:

I. Robert Emmerich, age 63, has served as Executive Vice President and Chief Credit Officer of First Commonwealth Bank since 2009. Prior to joining First Commonwealth, Mr. Emmerich was retired from a 31-year career at National City Corporation, where he most recently served as Executive Vice President & Chief Credit Officer for Consumer Lending.

Jane Grebenc, age 55, has served as Executive Vice President and Chief Revenue Officer of First Commonwealth Financial Corporation and President of First Commonwealth Bank since May 31, 2013. Ms. Grebenc's financial services career includes executive leadership roles at a variety of institutions, including Park View Federal Savings Bank, Key Bank, and National City Bank. She was formerly the Executive Vice President in charge of the retail, marketing, IT and operations and the mortgage segments at Park View Federal Savings Bank from 2009 until 2012, the Executive Vice President in charge of the Wealth Segment at Key Bank from 2007 until 2009 and the Executive Vice President / Branch Network at National City Bank prior to 2007.

Leonard V. Lombardi, age 54, has served as Executive Vice President and Chief Audit Executive of First Commonwealth Financial Corporation since January 1, 2009. He was formerly Senior Vice President / Loan Review and Audit Manager.

Norman J. Montgomery, age 46, has served as the Executive Vice President of Business Integration of First Commonwealth Bank since May 2011. He oversees First Commonwealth's product development and business analysis functions and assumed oversight of First Commonwealth's technology and operations functions in July 2012. He served as Senior Vice President/Business Integration of First Commonwealth Bank from September 2007 until May 2011 and previously held positions in the technology, operations, audit and marketing areas.

T. Michael Price, age 51, has served as President of First Commonwealth Bank since November 2007. On March 7, 2012, he began serving as President and Chief Executive Officer of First Commonwealth Financial Corporation. From January 1, 2012 to March 7, 2012, he served as Interim President and Chief Executive Officer of First Commonwealth Financial Corporation. He was formerly Chief Executive Officer of the Cincinnati and Northern Kentucky Region of National City Bank from July 2004 to November 2007 and Executive Vice President and Head of Small Business Banking of National City Bank prior to July 2004.

Carrie L. Riggle, age 44, has served as Executive Vice President / Human Resources since March 1, 2013. Ms. Riggle has been with First Commonwealth for more than 20 years. Over the course of her tenure, Ms. Riggle has been responsible for the daily operations of the Human Resources function and was actively involved in the establishment and development of a centralized corporate human resources function within the Company.

Robert E. Rout, age 62, joined First Commonwealth Financial Corporation as Executive Vice President and Chief Financial Officer in February 2010. Prior to joining First Commonwealth, Mr. Rout served as Chief Financial Officer and Secretary for S&T Bancorp, Inc. in Indiana, PA, since 1999 and as Chief Administrative Officer of S&T Bancorp, Inc. since April 2008. On November 27, 2013, Mr. Rout notified the Company of his intention to retire during the first half of 2014.

Matthew C. Tomb, age 37, has served as Executive Vice President, Chief Risk Officer and General Counsel of First Commonwealth Financial Corporation since November 2010. He previously served as Senior Vice President / Legal and Compliance since September 2007. Before joining First Commonwealth, Mr. Tomb practiced law with Sherman & Howard L.L.C. in Denver, Colorado.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

First Commonwealth is listed on the NYSE under the symbol "FCF." As of December 31, 2013, there were approximately 7,300 holders of record of First Commonwealth's common stock. The table below sets forth the high and low sales prices per share and cash dividends declared per share for common stock of First Commonwealth for each quarter during the last two fiscal years.

Period	High Sale	Low Sale	Cash Dividends Per Share
2013			
First Quarter	$7.73	$7.03	$0.05
Second Quarter	7.49	6.79	0.06
Third Quarter	8.09	7.31	0.06
Fourth Quarter	9.36	7.49	0.06

Period	High Sale	Low Sale	Cash Dividends Per Share
2012			
First Quarter	$6.68	$5.47	$0.03
Second Quarter	6.73	5.73	0.05
Third Quarter	7.55	6.67	0.05
Fourth Quarter	7.30	5.92	0.05

Federal and state regulations contain restrictions on the ability of First Commonwealth to pay dividends. For information regarding restrictions on dividends, see Part I, Item 1 "Business—Supervision and Regulation—Restrictions on Dividends" and Part II, Item 8, "Financial Statements and Supplementary Data—Note 26, Regulatory Restrictions and Capital Adequacy." In addition, under the terms of the capital securities issued by First Commonwealth Capital Trust I, II, and III, First Commonwealth could not pay dividends on its common stock if First Commonwealth deferred payments on the junior subordinated debt securities which provide the cash flow for the payments on the capital securities.

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The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on First Commonwealth's common stock to the KBW Regional Banking Index and the Russell 2000 Index. The stock performance graph assumes $100 was invested on December 31, 2008, and the cumulative return is measured as of each subsequent fiscal year end.

	Period Ending					
Index	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
First Commonwealth Financial Corporation	100.00	38.43	59.10	44.86	59.81	79.74
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
KBW Regional Banking Index	100.00	77.87	93.75	88.93	100.86	148.09

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 fourth 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 *
October 31, 2013	294,550	$7.52	294,550	619,392
November 30, 2013	—	—	—	575,055
December 31, 2013	—	—	—	610,262
Total	294,550	$7.52	294,550	

* Remaining number of shares approved under the Plan is estimated based on the market value of the Company's common stock of $8.69 at October 31, 2013, $9.36 at November 30, 2013 and $8.82 at December 31, 2013.

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ITEM 6. Selected Financial Data

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

	Periods Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands, except share data)				
Interest income	$206,358	$219,075	$231,545	$268,360	$293,281
Interest expense	21,707	30,146	41,678	61,599	86,771
Net interest income	184,651	188,929	189,867	206,761	206,510
Provision for credit losses	19,227	20,544	55,816	61,552	100,569
Net interest income after provision for credit losses	165,424	168,385	134,051	145,209	105,941
Net impairment losses	—	—	—	(9,193)	(36,185)
Net securities (losses) gains	(1,158)	192	2,185	2,422	273
Other income	61,321	65,242	55,484	56,005	55,237
Other expenses	168,824	177,207	176,826	171,226	171,151
Income (loss) before income taxes	56,763	56,612	14,894	23,217	(45,885)
Income tax provision (benefit)	15,281	14,658	(380)	239	(25,821)
Net Income (Loss)	$41,482	$41,954	$15,274	$22,978	$(20,064)
Per Share Data—Basic					
Net Income (Loss)	$0.43	$0.40	$0.15	$0.25	$(0.24)
Dividends declared	$0.23	$0.18	$0.12	$0.06	$0.18
Average shares outstanding	97,028,157	103,885,396	104,700,227	93,197,225	84,589,780
Per Share Data—Diluted					
Net Income (Loss)	$0.43	$0.40	$0.15	$0.25	$(0.24)
Average shares outstanding	97,029,832	103,885,663	104,700,393	93,199,773	84,589,780
At End of Period					
Total assets	$6,214,861	$5,995,390	$5,841,122	$5,812,842	$6,446,293
Investment securities	1,353,809	1,199,531	1,182,572	1,016,574	1,222,045
Loans and leases, net of unearned income	4,283,833	4,204,704	4,057,055	4,218,083	4,636,501
Allowance for credit losses	54,225	67,187	61,234	71,229	81,639
Deposits	4,603,863	4,557,881	4,504,684	4,617,852	4,535,785
Short-term borrowings	626,615	356,227	312,777	187,861	958,932
Subordinated debentures	72,167	105,750	105,750	105,750	105,750
Other long-term debt	144,385	174,471	101,664	98,748	168,697
Shareholders' equity	711,697	746,007	758,543	749,777	638,811
Key Ratios					
Return on average assets	0.68%	0.71%	0.27%	0.37%	(0.31)%
Return on average equity	5.70	5.46	2.00	3.33	(3.06)
Net loans to deposits ratio	91.87	90.78	88.70	89.80	100.42
Dividends per share as a percent of net income per share	53.49	44.57	82.26	23.72	NA
Average equity to average assets ratio	11.87	12.95	13.33	11.26	10.16

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis represents an overview of the financial condition and the results of operations of First Commonwealth and its subsidiaries, FCB, First Commonwealth Insurance Agency, Inc. ("FCIA") and First Commonwealth Financial Advisors, Inc. ("FCFA"), as of and for the years ended December 31, 2013, 2012 and 2011. The purpose of this discussion is to focus on information concerning our financial condition and results of operations that is not readily apparent from the Consolidated Financial Statements. In order to obtain a clear understanding of this discussion, you should refer to the Consolidated Financial Statements, the notes thereto and other financial information presented in this Annual Report.

Company Overview

First Commonwealth provides a diversified array of consumer and commercial banking services through our bank subsidiary, FCB. We also provide trust and wealth management services through FCFA and insurance products through FCIA. At December 31, 2013, FCB operated 110 community banking offices throughout western Pennsylvania and one loan production office in downtown Pittsburgh, Pennsylvania.

Our consumer services include Internet, mobile and telephone banking, an automated teller machine network, personal checking accounts, interest-earning checking accounts, savings accounts, insured money market accounts, debit cards, investment certificates, fixed and variable rate certificates of deposit, secured and unsecured installment loans, construction and real estate loans, safe deposit facilities, credit lines with overdraft checking protection and IRA accounts. Commercial banking services include commercial lending, small and high-volume business checking accounts, on-line account management services, ACH origination, payroll direct deposit, commercial cash management services and repurchase agreements. We also provide a variety of trust and asset management services and a full complement of auto, home and business insurance as well as term life insurance. We offer annuities, mutual funds, stock and bond brokerage services through an arrangement with a broker-dealer and insurance brokers. Most of our commercial customers are small and mid-sized businesses in central and western Pennsylvania.

As a financial institution with a focus on traditional banking activities, we earn the majority of our revenue through net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and maintaining or increasing our net interest margin, which is net interest income (on a fully taxable-equivalent basis) as a percentage of our average interest-earning assets. We also generate revenue through fees earned on various services and products that we offer to our customers and through sales of assets, such as loans, investments or properties. These revenue sources are offset by provisions for credit losses on loans, loss on sale or other-than-temporary impairments on investment securities, operating expenses and income taxes.

General economic conditions also affect our business by impacting our customers' need for financing, thus affecting loan growth, and impacting the credit strength of existing and potential borrowers.

Critical Accounting Policies and Significant Accounting Estimates

First Commonwealth's accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and predominant practice in the banking industry. The preparation of financial statements in accordance with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Over time, these estimates, assumptions and judgments may prove to be inaccurate or vary from actual results and may significantly affect our reported results and financial position for the period presented or in future periods. We currently view the determination of the allowance for credit losses, fair value of financial instruments, goodwill and other intangible assets, and income taxes to be critical because they are highly dependent on subjective or complex judgments, assumptions and estimates made by management.

Allowance for Credit Losses

We account for the credit risk associated with our lending activities through the allowance and provision for credit losses. The allowance represents management's best estimate of probable losses that are inherent in our existing loan portfolio as of the balance sheet date. The provision is a periodic charge to earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses. Management determines and reviews with the Board of Directors the adequacy of the allowance on a quarterly basis in accordance with the methodology described below.

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- Individual loans are selected for review in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, "Receivables." These are generally large balance commercial loans and commercial mortgages that are rated less than "satisfactory" based on our internal credit-rating process.
- We assess whether the loans identified for review in step one are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement, which generally represents loans that management has placed on nonaccrual status.
- For impaired loans we calculate the estimated fair value of the loans that are selected for review based on observable market prices, discounted cash flows or the value of the underlying collateral and record an allowance if needed.
- We then select pools of homogenous smaller balance loans having similar risk characteristics as well as unimpaired larger commercial loans for evaluation collectively under the provisions of FASB ASC Topic 450, "Contingencies." These smaller balance loans generally include residential mortgages, consumer loans, installment loans and some commercial loans.
- FASB ASC Topic 450 loans are segmented into groups with similar characteristics and an allowance for credit losses is allocated to each segment based on recent loss history and other relevant information.
- We then review the results to determine the appropriate balance of the allowance for credit losses. This review includes consideration of additional factors, such as the mix of loans in the portfolio, the balance of the allowance relative to total loans and nonperforming assets, trends in the overall risk profile in the portfolio, trends in delinquencies and nonaccrual loans, and local and national economic information and industry data, including trends in the industries we believe are higher risk.

There are many factors affecting the allowance for credit losses; some are quantitative while others require qualitative judgment. These factors require the use of estimates related to the amount and timing of expected future cash flows, appraised values on impaired loans, estimated losses for each loan category based on historical loss experience by category using an eight to twenty quarter average, and consideration of current economic trends and conditions, all of which may be susceptible to significant judgment and change. To the extent that actual outcomes differ from estimates, additional provisions for credit losses could be required that could adversely affect our earnings or financial position in future periods. The loan portfolio represents the largest asset category on our Consolidated Statements of Financial Condition.

Fair Values of Financial Instruments

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a framework for measuring fair value. 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 markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 2 valuations are for instruments that trade in less active dealer or broker markets and incorporates values obtained for identical or comparable instruments. Level 3 valuations 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. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to each instrument.

Level 2 investment securities are valued by a recognized third party pricing service using observable inputs. Management validates the market values provided by the third party service by having another recognized pricing service price 100% of 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.

Level 3 investments include pooled trust preferred collateralized debt obligations. The fair values of these investments are determined by a specialized third party valuation service. 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 by confirming changes in the underlying collateral to the trustee and underwriter 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.

Methodologies and estimates used by management when determining the fair value for pooled trust preferred collateralized debt obligations and testing those securities for other-than-temporary impairment are discussed in detail in Management’s

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Discussion and Analysis of Financial Condition and Results of Operations and in Note 9 “Impairment of Investment Securities” and Note 19 “Fair Values of Assets and Liabilities” of Notes to the Consolidated Financial Statements.

Goodwill and Other Intangible Assets

We consider our accounting policies related to goodwill and other intangible assets to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third-party sources, when available. When third-party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. Intangible assets that have finite useful lives will continue to be amortized over their useful lives and are periodically evaluated for impairment.

As of December 31, 2013, goodwill and other intangible assets were not considered impaired; however, changing economic conditions that may adversely affect our performance and stock price could result in impairment, which could adversely affect earnings in future periods. Our Step 1 goodwill impairment analysis as of November 30, 2013, determined that the fair value of our goodwill exceeded its carrying value by approximately 30%. An assessment of qualitative factors was completed as of December 31, 2013 and indicated that it is more likely than not that our fair value exceeded its carrying value.

Income Taxes

We estimate income tax expense based on amounts expected to be owed to the tax jurisdictions where we conduct business. On a quarterly basis, management assesses the reasonableness of its effective tax rate based upon its current estimate of the amount and components of net income, tax credits and the applicable statutory tax rates expected for the full year.

Deferred income tax assets and liabilities are determined using the asset and liability method and are reported in the Consolidated Statements of Financial Condition. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Management assesses all available positive and negative evidence on a quarterly basis to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. The amount of future taxable income used in management’s valuation is based upon management approved forecasts, evaluation of historical earnings levels, proven ability to raise capital to support growth or during times of economic stress and consideration of prudent and feasible potential tax strategies. If future events differ from our current forecasts, a valuation allowance may be required, which could have a material impact on our financial condition and results of operations.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other liabilities in the Consolidated Statements of Financial Condition. Management evaluates and assesses the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, as well as the current period’s income tax expense and can be significant to our operating results.

Results of Operations—2013 Compared to 2012

Net Income

Net income for 2013 was $41.5 million, or $0.43 per diluted share, as compared to net income of $42.0 million, or $0.40 per diluted share, in 2012. Net income in 2013 was positively impacted by improvements in the credit quality of our loan portfolio as losses on the sale or write-down of assets decreased $6.3 million and collection and repossession expenses decreased $1.9 million. Additionally, operational losses decreased $3.3 million during 2013. Offsetting these positives were $2.6 million in technology related conversion expenses, $1.2 million in net securities losses and a $4.3 million decrease in net interest income.

Our return on average equity was 5.7% and return on average assets was 0.68% for 2013, compared to 5.5% and 0.71%, respectively, for 2012.

Average diluted shares for the year 2013 were 7% less than the comparable period in 2012 primarily due to the common stock buyback programs that were authorized during 2013 and 2012.

Net Interest Income

Net interest income, which is our primary source of revenue, is the difference between interest income from earning assets (loans and securities) and interest expense paid on liabilities (deposits, short-term borrowings and long-term debt). The amount of net interest income is affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities. The net interest margin is expressed as the percentage of net interest income, on a fully taxable equivalent basis, to average interest-earning assets. To compare the tax exempt asset yields to taxable yields, amounts are adjusted to the pretaxable equivalent amounts based on the marginal corporate federal income tax rate of 35%. The taxable equivalent adjustment to net interest income for 2013 was $4.1 million compared to $4.4 million in 2012. Net interest income comprises a majority of our operating revenue (net interest income before the provision plus noninterest income) at 75% and 74% for the years ended December 31, 2013 and 2012, respectively.

Net interest income, on a fully taxable equivalent basis, was $188.7 million for the year-ended December 31, 2013, a $4.6 million, or 2%, decrease compared to $193.3 million for the same period in 2012. The net interest margin, on a fully taxable equivalent basis decreased 22 basis points, or 6%, to 3.39% in 2013 from 3.61% in 2012. The net interest margin is affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

The low interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the year-ended December 31, 2013. Yields and spreads on new loan volumes continued to experience competitive pricing pressures in 2013, specifically home equity and indirect loans. Also contributing to lower yields on earning assets is the runoff of existing assets which are earning higher interest rates than new volumes as well as growth in the investment portfolio. Growth in earning assets has helped to offset the spread compression as average earning assets for the year-ended December 31, 2013 increased $210.5 million, or 4%, compared to the comparable period in 2012. However, approximately 58% of the growth in earning assets relates to the investment portfolio, which is earning approximately 180 basis points less than the rate earned on growth in the loan portfolio. Investment portfolio purchases during 2013 have been primarily in the mortgage-related assets with approximate durations of 36-48 months. The majority of these investments have monthly principal payments which provide for reinvestment opportunities as interest rates rise. It is expected that the challenges to the net interest margin will continue as $2.9 billion in interest-sensitive assets either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.79% for the year-ended December 31, 2013, a decrease of 39 basis points from the 4.18% yield for the same period in 2012. This decline can be attributed to the repricing of our variable 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 0.48% for the year-ended December 31, 2013, compared to 0.70% for the same period in 2012.

Comparing the year-ended December 31, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $10.3 million. The lower yield on interest-earning assets adversely impacted net interest income by $20.4 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $10.1 million. We have been able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposits and borrowed funds, disciplined pricing strategies, 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 these capital securities with lower cost funding alternatives.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets and a lower cost of funds 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 $5.7 million in the year-ended December 31, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $7.4 million in interest income, while volume changes primarily attributed to short-term and long-term borrowings increased interest expense by $1.7 million.

Positively affecting net interest income was a $41.1 million increase in average net free funds at December 31, 2013 as compared to December 31, 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

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net free funds was a $66.1 million increase in average noninterest-bearing demand deposits 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 year-ended December 31, 2013 increased $16.9 million million, or 1%, compared to the comparable period in 2012, while the average rate paid on time deposits decreased 42 basis points. The positive change in deposit mix is expected to continue as $750.7 million in certificates of deposits either mature or reprice over the next twelve months.
The following table reconciles interest income in the Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the periods presented:

	For the Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
Interest income per Consolidated Statements of Income	$206,358	$219,075	$231,545
Adjustment to fully taxable equivalent basis	4,081	4,392	5,500
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	210,439	223,467	237,045
Interest expense	21,707	30,146	41,678
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$188,732	$193,321	$195,367

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The following table provides information regarding the average balances and yields and rates on interest-earning assets and interest-bearing liabilities for the periods ended December 31:

	Average Balance Sheets and Net Interest Analysis								
	2013			2012			2011		
	Average Balance	Income / Expense (a)	Yield or Rate	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	$3,355	$7	0.21 %	$4,329	$6	0.14 %	$26,477	$64	0.24 %
Tax-free investment securities (e)	83	6	7.40	271	18	6.85	4,852	328	6.76
Taxable investment securities	1,300,538	30,218	2.32	1,179,169	31,799	2.70	1,043,798	33,812	3.24
Loans, net of unearned income (b)(c)	4,255,593	180,208	4.23	4,165,292	191,644	4.60	4,061,822	202,841	4.99
Total interest-earning assets	5,559,569	210,439	3.79	5,349,061	223,467	4.18	5,136,949	237,045	4.61
Noninterest-earning assets:									
Cash	71,930			75,044			75,071		
Allowance for credit losses	(62,800)			(65,279)			(76,814)		
Other assets	563,283			581,321			593,248		
Total noninterest-earning assets	572,413			591,086			591,505		
Total Assets	$6,131,982			$5,940,147			$5,728,454		
Liabilities and Shareholders’ Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	$670,524	$236	0.04 %	$645,970	$286	0.04 %	$607,756	$515	0.08 %
Savings deposits (d)	1,942,323	2,962	0.15	1,921,417	4,233	0.22	1,877,321	7,252	0.39
Time deposits	1,154,984	12,398	1.07	1,138,112	16,935	1.49	1,343,281	25,729	1.92
Short-term borrowings	478,388	1,262	0.26	402,196	1,070	0.27	182,864	728	0.40
Long-term debt	233,483	4,849	2.08	202,598	7,622	3.76	184,185	7,454	4.05
Total interest-bearing liabilities	4,479,702	21,707	0.48	4,310,293	30,146	0.70	4,195,407	41,678	0.99

Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	876,111			810,041			720,005		
Other liabilities	48,335			50,859			49,163		
Shareholders' equity	727,834			768,954			763,879		
Total noninterest-bearing funding sources	1,652,280			1,629,854			1,533,047		
Total Liabilities and Shareholders' Equity	$6,131,982			$5,940,147			$5,728,454		
Net Interest Income and Net Yield on Interest-Earning Assets		$188,732	3.39 %		$193,321	3.61 %		$195,367	3.80 %

(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.

(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 $6.18 thousand, $18.58 thousand and $328.01 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

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The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest-earning assets and interest-bearing liabilities and changes in the rates for the periods indicated:

	Analysis of Year-to-Year Changes in Net Interest Income					
	2013 Change from 2012			2012 Change from 2011		
	Total Change	Change Due To Volume	Change Due To Rate (a)	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	$(58)	$(53)	$(5)
Tax-free investment securities	(12)	(13)	1	(310)	(310)	—
Taxable investment securities	(1,581)	3,277	(4,858)	(2,013)	4,386	(6,399)
Loans	(11,436)	4,154	(15,590)	(11,197)	5,163	(16,360)
Total interest income (b)	(13,028)	7,417	(20,445)	(13,578)	9,186	(22,764)
Interest-bearing liabilities:						
Interest-bearing demand deposits	(50)	10	(60)	(229)	31	(260)
Savings deposits	(1,271)	46	(1,317)	(3,019)	172	(3,191)
Time deposits	(4,537)	251	(4,788)	(8,794)	(3,939)	(4,855)
Short-term borrowings	192	206	(14)	342	877	(535)
Long-term debt	(2,773)	1,161	(3,934)	168	746	(578)
Total interest expense	(8,439)	1,674	(10,113)	(11,532)	(2,113)	(9,419)
Net interest income	$(4,589)	$5,743	$(10,332)	$(2,046)	$11,299	$(13,345)

(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 to absorb 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 years ended December 31:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$20,755	108 %	$6,416	31 %
Real estate construction	(2,056)	(11)	5,191	26
Residential real estate	2,369	12	1,077	5
Commercial real estate	(286)	(1)	3,921	19
Loans to individuals	4,371	23	2,849	14
Unallocated	(5,926)	(31)	1,090	5

Total	$19,227	100	%	$20,544	100	%

The provision for credit losses for the year 2013 totaled $19.2 million million, a decrease of $1.3 million, or 6.41%, compared to the year 2012. The majority of the 2013 provision expense, or $13.5 million of the $19.2 million, related to two commercial borrowers. Deterioration in the value of certain assets of a local real estate developer, for which net equity is the expected repayment source, resulted in provision expense of $10.4 million and a related charge-off of $13.1 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 two non-accrual loans were to the same borrower and 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.

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As evidenced by the table above, the current year provision is largely the result of the commercial, financial, agricultural and other portion of the portfolio. The primary reason for this increase is a $13.1 million charge-off taken due to deterioration in the value of certain assets of a local real estate developer, for which net equity is our expected repayment source. Also, an additional $1.6 million in specific reserves were recorded on a $12.7 million commercial industrial loan relationship with a local energy company that was moved into nonaccrual status during 2013.

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.

The provision related to loans to individuals can be largely attributed to the addition of a $1.2 million specific reserve related to $6.9 million of consumer loans in nonaccrual status as well as net charge-offs of $3.0 million.

The negative $5.9 million provision for credit losses related to the unallocated portion of the allowance is a result of it no longer being treated as a separate component of the allowance but instead is now incorporated into the reserve provided for each loan category. This portion of the allowance for credit losses reflects the qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experience.

The allowance for credit losses was $54.2 million, or 1.27%, of total loans outstanding at December 31, 2013, compared to $67.2 million, or 1.60%, at December 31, 2012. Nonperforming loans as a percentage of total loans decreased to 1.39% at December 31, 2013 from 2.56% at December 31, 2012. The allowance to nonperforming loan ratio was 91% as of December 31, 2013 and 62% at December 31, 2012.

Net credit losses were $32.2 million for the year-ended December 31, 2013 compared to $14.6 million for the same period in 2012. The most significant credit losses recognized during the year-ended December 31, 2013, were the aforementioned $13.1 million charge-off, a $2.3 million charge-off of a loan to a local energy company, a $2.8 million charge-off taken on a loan to a western Pennsylvania non-profit healthcare facility which was moved to OREO in the fourth quarter of 2013, and a $3.1 million charge-off on two commercial real estate loans which were sold during the first quarter of 2013. 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 provision is a result of management's assessment of credit quality statistics and other factors that would have an impact on probable losses in the loan portfolio and the methodology used for determination of the adequacy of the allowance for credit losses. The change in the allowance for credit losses is consistent with the decrease in estimated losses within the loan portfolio determined by factors including certain loss events, portfolio migration analysis, historical loss experience, delinquency trends, deterioration in collateral values and volatility in economic indicators such as the housing market, consumer price index, vacancy rates and unemployment levels. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at December 31, 2013.

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A detailed analysis of our credit loss experience for the previous five years is shown below:

	2013	2012	2011	2010	2009
	(dollars in thousands)				
Loans outstanding at end of year	$4,283,833	$4,204,704	$4,057,055	$4,218,083	$4,636,501
Average loans outstanding	$4,255,593	$4,165,292	$4,061,822	$4,467,338	$4,557,227
Balance, beginning of year	$67,187	$61,234	$71,229	$81,639	$52,759
Loans charged off:					
Commercial, financial, agricultural and other	18,399	5,207	7,114	22,293	20,536
Real estate construction	773	3,601	28,886	41,483	36,892
Residential real estate	1,814	3,828	4,107	5,226	4,604
Commercial real estate	10,513	851	24,861	2,466	7,302
Loans to individuals	3,679	3,482	3,325	3,841	4,378
Total loans charged off	35,178	16,969	68,293	75,309	73,712
Recoveries of loans previously charged off:					
Commercial, financial, agricultural and other	455	443	473	2,409	448
Real estate construction	501	582	955	—	—
Residential real estate	1,264	422	132	252	81
Commercial real estate	136	410	349	163	914
Loans to individuals	633	521	573	523	580
Total recoveries	2,989	2,378	2,482	3,347	2,023
Net credit losses	32,189	14,591	65,811	71,962	71,689
Provision charged to expense	19,227	20,544	55,816	61,552	100,569
Balance, end of year	$54,225	$67,187	$61,234	$71,229	$81,639
Ratios:					
Net credit losses as a percentage of average loans outstanding	0.76 %	0.35 %	1.62 %	1.61 %	1.57 %
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.27 %	1.60 %	1.51 %	1.69 %	1.76 %

Noninterest Income

The components of noninterest income for each year in the three-year period ended December 31 are as follows:

	2013	2012	2011	2013 compared to 2012 $ Change	2013 compared to 2012 % Change
	(dollars in thousands)				
Noninterest Income:					
Trust income	$6,166	$6,206	$6,498	$(40)	(1)%
Service charges on deposit accounts	15,652	14,743	14,775	909	6
Insurance and retail brokerage commissions	6,005	6,272	6,376	(267)	(4)
Income from bank owned life insurance	5,539	5,850	5,596	(311)	(5)
Card related interchange income	13,746	13,199	11,968	547	4
Other income	10,632	13,610	12,803	(2,978)	(22)
Subtotal	57,740	59,880	58,016	(2,140)	(4)
Net securities (losses) gains	(1,158)	192	2,185	(1,350)	(703)

Gain on sale of assets	2,153	4,607	4,155	(2,454)	(53)
Derivatives mark to market	1,428	755	(6,687)	673	89
Total noninterest income	$60,163	$65,434	$57,669	$(5,271)	(8)%

Noninterest income, excluding net securities (losses) gains, gains on sale of assets and the derivatives mark to market adjustment decreased $2.1 million, or 3.57%, in 2013, largely due to a decline in the other income category. This decrease can be attributed to a $1.9 million joint venture termination fee received in 2012 from the dissolution of a mortgage banking joint

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venture with another financial institution. In 2014, the Company will reenter the mortgage banking business by establishing its own residential mortgage division. Also contributing to the decline in other income category is a $1.0 million decrease in income from other real estate owed due to rental income received in 2012 from a western Pennsylvania office complex foreclosed on in 2011 and sold in March 2012. Increases in service charges on deposits and card related interchange income can be attributed to growth in the number of deposit customers as well as continued increases in electronic payments by our customers.

Total noninterest income decreased $5.3 million or 8% in comparison to the year ended 2012. The most notable change includes a $2.5 million decrease in the 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 compared to gains of $0.6 million recognized on the sale of loans during 2013. Loans were sold in both years in an effort to decrease total nonperforming loans and criticized assets.

Comparing the year 2013 to the year 2012, net securities (losses) gains decreased $1.4 million. This change is primarily the result of a $1.3 million loss recognized on the early redemption of one of our pooled trust preferred securities. This security was called when the senior note holders elected to liquidate all assets of the trust, resulting in losses for the mezzanine notes owned by the Company.

Noninterest Expense

The components of noninterest expense for each year in the three-year period ended December 31 are as follows:

				2013 Compared to 2012	
	2013	2012	2011	$ Change	% Change
	(dollars in thousands)				
Noninterest Expense:					
Salaries and employee benefits	$86,012	$86,069	$84,669	$(57)	—%
Net occupancy expense	13,607	13,255	14,069	352	3
Furniture and equipment expense	15,118	12,460	12,517	2,658	21
Data processing expense	6,009	7,054	6,027	(1,045)	(15)
Pennsylvania shares tax expense	5,638	5,706	5,480	(68)	(1)
Intangible amortization	1,064	1,467	1,534	(403)	(27)
Collection and repossession expense	3,836	5,756	7,583	(1,920)	(33)
Other professional fees and services	3,731	4,329	5,297	(598)	(14)
FDIC insurance	4,366	5,032	5,490	(666)	(13)
Other operating expenses	23,057	24,318	23,953	(1,261)	(5)
Subtotal	162,438	165,446	166,619	(3,008)	(2)
Loss on sale or write-down of assets	1,054	7,394	9,428	(6,340)	(86)
Operational losses	1,115	4,367	779	(3,252)	(74)
Loss on early redemption of subordinated debt	1,629	—	—	1,629	100
Conversion related expenses	2,588	—	—	2,588	100
Total noninterest expense	$168,824	$177,207	$176,826	$(8,383)	(5)%

Total noninterest expense for the year 2013 decreased $8.4 million in comparison to the year 2012, largely due to improvements in the credit quality of our loan portfolio, cost saving initiatives and a decline in operational losses. Improvements in the level of noninterest expenses in 2013 were partially offset by $4.6 million in technology conversion charges and a $1.6 million loss on the early redemption of subordinated debt.

Salaries and employee benefit expense remained flat compared to 2012, despite a $1.8 million increase in hospitalization expense, largely due to continued cost savings initiatives.

Collection and repossession expenses and loss on sale or write-down of assets declined $1.9 million and $6.3 million, respectively. The decrease in both items is largely attributable to the resolution of several large credits during 2013 and improvements in the credit quality of the loan portfolio.

Data processing expense decreased $1.0 million as a result of a 2013 change in vendors which provided savings of $0.9 million in ATM/debit card related expenses.

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Other operating expenses decreased during 2013 largely due to a $1.1 million decline in advertising expense resulting from cost savings initiatives implemented during the year.
Operational losses decreased $3.3 million in 2013 due to a $3.5 million fraud loss recognized in 2012.
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.

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 third quarter of 2014. First Commonwealth will incur approximately $12.0 million of costs related to accelerated depreciation for data processing hardware and software, early termination charges on existing contracts and staffing and employee-related charges. The Company expects to achieve $6.0 to $8.0 million in lower annual technology related expenses as well as employment and other operational expenses as a result of the conversion. Accelerated depreciation for hardware and software to be replaced in the conversion is the primary cause of the $2.7 million increase in furniture and equipment expense. Conversion related expenses of $2.6 million recognized in 2013 include early termination charges on existing contracts and staffing and employment-related charges.

Income Tax
The provision for income taxes of $15.3 million in 2013 is comparable to the provision for income taxes of $14.7 million in 2012 mostly due to the consistent level of pretax income of $56.8 million and $56.6 million for 2013 and 2012, respectively.
The effective tax rate was 27% and 26% for tax expense in 2013 and 2012. We ordinarily 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 consistent level of tax benefits that reduce our tax rate below the 35% statutory rate and the relatively low level of annual pretax income produced a low effective tax rate for 2013 and 2012.

Financial Condition
First Commonwealth's total assets increased by $219.5 million in 2013. Loans increased $79.1 million, or 2%, and investments increased $147.1 million, or 13%. Factors impacting loan growth include underwriting guidelines which limit geography and size for commercial loans, our goal to manage down large credit relationships, generally weak borrower demand and expected declines in the 1-4 family mortgage loan portfolio. Underwriting guidelines provide little flexibility on exceptions and robust monitoring of loan to value, cash flow coverage, debt/equity and other credit quality measurement tools. Geographic limitations include restricting consumer and small business loans to Pennsylvania counties in which First Commonwealth has a branch or loan production office presence; commercial real estate and commercial loan markets were prescribed within a 250 mile radius of First Commonwealth's headquarters location in Indiana, Pennsylvania. Commercial and industrial loan syndications are unlimited geographically in the United States for select, high quality industry segments in which we have expertise. First Commonwealth has a $200 million limit for out of market syndications.
First Commonwealth implemented a strategic decision in 2005 to exit the residential mortgage business, satisfying customer requests for these loans through a joint venture or home equity loans. As a result, the residential mortgage portfolio has declined approximately $40 million in 2013 from regularly scheduled repayments and payoffs. In 2012, the mortgage banking joint venture was terminated and in 2013 the Company announced plans to reenter the residential mortgage business. It is expected that the mortgage banking division will begin accepting applications in the second half of 2014.

During 2013, approximately $356.7 million in investment securities were called or matured. These securities were higher yielding securities and contributed to the decline in yield earned on the portfolio. As a result, $409.3 million in asset-backed securities and $130.6 million in agency securities were purchased in 2013 to help increase earnings from the portfolio with a reduced risk profile.

First Commonwealth's total liabilities increased $253.8 million, or 5%, in 2013. Deposit growth of $46.0 million, or 1%, was augmented by an increase in short-term borrowings of $270.4 million, or 76% and offset by a decrease in long-term debt of $63.7 million million, or 23%.

We periodically utilize short-term and long-term borrowings to fund the origination of new loans as well as the purchase of investments. In 2013, $32.5 million in 9.50% debt issued by First Commonwealth Capital Trust I was redeemed and replaced

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with lower cost funding alternatives. The decrease in interest paid on borrowings as well as lower rates being paid on deposits has helped to mitigate the contracting pressure on the net interest yield on interest-earning assets and interest-bearing liabilities.

Loan Portfolio
Following is a summary of our loan portfolio as of December 31:

	2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Commercial, financial, agricultural and other	$1,021,056	24 %	$1,019,822	24 %	$996,739	25 %	$913,814	22 %	$1,127,320	25 %
Real estate construction	93,289	2	87,438	2	76,564	2	261,482	6	428,744	9
Residential real estate	1,262,718	30	1,241,565	30	1,137,059	28	1,127,273	27	1,202,386	26
Commercial real estate	1,296,472	30	1,273,661	30	1,267,432	31	1,354,074	32	1,320,715	28
Loans to individuals	610,298	14	582,218	14	565,849	14	561,440	13	557,336	12
Total loans and leases net of unearned income	$4,283,833	100 %	$4,204,704	100 %	$4,043,643	100 %	$4,218,083	100 %	$4,636,501	100 %

The loan portfolio totaled $4.3 billion as of December 31, 2013, reflecting growth of $79.1 million or 2% compared to December 31, 2012. Loan growth was experienced in all categories, with the majority being recognized in the loans to individuals category as a result of growth in indirect auto lending. Additionally, the residential real estate portfolio increased due to the success of our installment home equity product. Increases in commercial, financial, agricultural and other portfolio can be attributed to growth in direct middle market lending and syndications in Pennsylvania and contiguous states.

The majority of our loan portfolio is with borrowers located in Pennsylvania. During the fourth quarter of 2013, the Company expanded into the Ohio market area with the opening of a loan production office in Cleveland, Ohio. As of December 31, 2013 and 2012, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

The credit quality of loan portfolio continued to improve during 2013 with decreases in the level of criticized assets, delinquency and nonaccrual loans. As of December 31, 2013, criticized loans or loans designated OAEM, substandard, impaired or doubtful decreased $126.1 million, or 44%, from December 31, 2012. Criticized loans totaled $162.4 million at December 31, 2013 and represented 4% of the total loan portfolio. Additionally, delinquency on accruing loans decreased $8.8 million, or 40%, at December 31, 2013 compared to December 31, 2012. As of December 31, 2013, nonaccrual loans decreased $48.6 million, or 51%, compared to December 31, 2012.

Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans at December 31, 2013 were as follows:

	Within One Year	One to 5 Years	After 5 Years	Total
	(dollars in thousands)			

Commercial, financial, agricultural and other	$75,131	$641,181	$206,617	$922,929
Real estate construction (a)	3,105	31,045	59,139	93,289
Commercial real estate	90,613	89,522	1,116,337	1,296,472
Other	19,781	5,169	73,177	98,127
Totals	$188,630	$766,917	$1,455,270	$2,410,817
Loans at fixed interest rates		33,362	369,290	
Loans at variable interest rates		733,555	1,085,980	
Totals		$766,917	$1,455,270	

(a) The maturity of real estate construction loans include term commitments that follow the construction period. Loans with these term commitments will be moved to the commercial real estate category when the construction phase of the project is completed.

First Commonwealth has a regulatory established legal lending limit of $95.6 million to any one borrower or closely related group of borrowers, but has established lower thresholds for credit risk management.

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Nonperforming Loans

Nonperforming loans include nonaccrual loans and restructured loans. Nonaccrual loans represent loans on which interest accruals have been discontinued. 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 under terms not available in the market.

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 typically placed in nonaccrual status when there is evidence of a significantly weakened financial condition or principal and interest is 90 days or more delinquent, except for consumer loans which are placed in nonaccrual status at 150 days past due. Interest received on a nonaccrual loan is normally applied as a reduction to loan principal rather than interest income utilizing the cost recovery methodology of revenue recognition.

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 are recognized when a loss is probable and the amount is reasonably estimable.

The following is a comparison of nonperforming and impaired assets and the effects on interest due to nonaccrual loans for the period ended December 31:

	2013		2012		2011		2010		2009	
	(dollars in thousands)									
Nonperforming Loans:										
Loans on nonaccrual basis	$28,908		$43,539		$33,635		$84,741		$147,937	
Loans held for sale on nonaccrual basis	—		—		13,412		—		—	
Troubled debt restructured loans on nonaccrual basis	16,980		50,979		44,841		31,410		—	
Troubled debt restructured loans on accrual basis	13,495		13,037		20,276		1,336		619	
Total nonperforming loans	$59,383		$107,555		$112,164		$117,487		$148,556	
Loans past due in excess of 90 days and still accruing	$2,505		$2,447		$11,015		$13,203		$15,154	
Other real estate owned	$11,728		$11,262		$30,035		$24,700		$24,287	
Loans outstanding at end of period	$4,283,833		$4,204,704		$4,057,055		$4,218,083		$4,636,501	
Average loans outstanding	$4,255,593		$4,165,292		$4,061,822		$4,467,338		$4,557,227	
Nonperforming loans as a percentage of total loans	1.39	%	2.56	%	2.76	%	2.79	%	3.20	%
Provision for credit losses	$19,227		$20,544		$55,816		$61,552		$100,569	
Allowance for credit losses	$54,225		$67,187		$61,234		$71,229		$81,639	
Net charge-offs	$32,189		$14,591		$65,811		$71,962		$71,689	
Net charge-offs as a percentage of average loans outstanding	0.76	%	0.35	%	1.62	%	1.61	%	1.57	%
Provision for credit losses as a percentage of net charge-offs	59.73	%	140.80	%	84.81	%	85.53	%	140.29	%
Allowance for credit losses as a percentage of end-of-period loans outstanding (a)	1.27	%	1.60	%	1.51	%	1.69	%	1.76	%
	91.31	%	62.47	%	62.01	%	60.63	%	54.96	%

Allowance for credit losses as a percentage of nonperforming loans (a)					
Gross income that would have been recorded at original rates	$7,920	$15,036	$14,872	$13,142	$7,645
Interest that was reflected in income	679	369	1,393	30	13
Net reduction to interest income due to nonaccrual	$7,241	$14,667	$13,479	$13,112	$7,632

(a) End of period loans and nonperforming loans exclude loans held for sale.

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Nonperforming loans decreased $48.2 million to $59.4 million at December 31, 2013 compared to $107.6 million at December 31, 2012. The nonperforming loans as a percentage of total loans decreased to 1.4% from 2.6% at December 31, 2013 compared to December 31, 2012. Other real estate owned totaled $11.7 million at December 31, 2013 compared to $11.3 million at December 31, 2012.

Also included in nonperforming loans are troubled debt restructured loans (“TDR’s”). TDR’s 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 under terms not available in the market. The $33.5 million decrease in TDR’s during 2013 is primarily the result of a $13.1 million charge-off on a loan relationship with a local real estate developer and the sale of $17.2 million of loans secured by commercial real estate in eastern Pennsylvania. For additional information on TDR’s please refer to Note 10 “Loans and Allowance for Credit Losses.”

Net credit losses were $32.2 million in 2013 compared to $14.6 million for the year 2012. The most significant credit losses recognized during the year were a $13.1 million charge-off taken on a loan relationship with a local real estate developer, a $2.8 million charge-off taken on a loan to a western Pennsylvania non-profit healthcare facility that was moved to OREO in the fourth quarter of 2013, a $2.5 million charge-off for a western Pennsylvania student housing project that paid off during the third quarter of 2013, and a $2.3 million charge-off taken on a loan to a local energy company. Additional detail on credit risk is included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under “Provision for Credit Losses" and "Allowance for Credit Losses."

Provision for credit losses as a percentage of net charge-offs decreased to 59.7% for the year ended December 31, 2013 from 140.8% for the year ended December 31, 2012, as a result of $13.0 million in charge-offs recorded in 2013 for four commercial borrowers which were reserved for in prior periods.

Nonperforming Securities

The following is a comparison of nonperforming securities for the period ended December 31:

	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
	(dollars in thousands)				
Nonperforming Securities:					
Nonaccrual securities at market value	$—	$—	$—	$15,823	$3,258

Nonperforming securities at December 31, 2010 and 2009 were pooled trust preferred collateralied debt obligations. These securities were returned to performing status in 2011 because of evidence supporting management’s estimate of future cash flows indicating that all remaining principal and interest will be received. Support for these estimates include; no other-than-temporary impairment charges since the third quarter of 2010, improvement in the underlying collateral of these bonds evidenced by a reduced level of new interest payment deferrals and principal defaults as well as an increase in actual cures of deferring collateral.

Allowance for Credit Losses

Following is a summary of the allocation of the allowance for credit losses at December 31:

	2013		2012		2011		2010		2009	
	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)
	(dollars in thousands)									
Commercial, financial, agricultural and other	$22,663	24 %	$19,852	24 %	$18,200	25 %	$21,700	22 %	$31,369	25 %
Real estate construction	6,600	2	8,928	2	6,756	2	18,002	6	18,224	9
Residential real estate	7,727	30	5,908	30	8,237	28	5,454	27	5,847	26

Commercial real estate	11,778	30	22,441	30	18,961	31	16,913	32	17,526	28
Loans to individuals	5,457	14	4,132	14	4,244	14	4,215	13	4,731	12
Unallocated	—	N/A	5,926	N/A	4,836	N/A	4,945	N/A	3,942	N/A
Total	$54,225		$67,187		$61,234		$71,229		$81,639	
Allowance for credit losses as percentage of end-of-period loans outstanding	1.27 %		1.60 %		1.51 %		1.69 %		1.76 %	

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(a) Represents the ratio of loans in each category to total loans.

The allowance for credit losses decreased $13.0 million from December 31, 2012 to December 31, 2013 and the allowance for credit losses as a percentage of end-of-period loans outstanding was 1.3% at December 31, 2013 compared to 1.6% at December 31, 2012. The majority of the 2013 change in the allowance for credit losses, or $9.0 million of change, can be attributed to specific reserves established for impaired loans. The allowance for credit losses includes both a general reserve for performing loans and specific reserves for impaired loans. Comparing December 31, 2013 to December 31, 2012, the general reserve for performing loans decreased from 1.19% to 1.05% of total performing loans. Specific reserves decreased from 16.5% of nonperforming loans at December 31, 2012 to 14.9% of nonperforming loans at December 31, 2013. The decrease in specific reserves held is a direct result of the $2.8 million decrease in specific reserves related to a commercial loan relationship with a local real estate developer, a $2.4 million decrease due to the charge-off of a loan to a local energy company, a $2.8 million decrease related to a western Pennsylvania non-profit health care facility which was moved to OREO in the fourth quarter of 2013 and a $2.5 million decrease related to a charge-off on a loan for a western Pennsylvania student housing project that paid off in the third quarter of 2013. The allowance for credit losses as a percentage of nonperforming loans was 91% and 62% at December 31, 2013 and 2012, respectively.

The allowance for credit losses represents management’s estimate of probable losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions charged to income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off. Management evaluates the adequacy of the allowance at least quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and nonaccrual trends, portfolio growth, net realizable value of collateral and current economic conditions. This evaluation is subjective and requires material estimates that may change over time. For a description of the methodology used to calculate the allowance for credit losses, please refer to “Critical Accounting Policies and Significant Accounting Estimates—Allowance for Credit Losses.”

Management reviews local and national economic information and industry data, including the trends in the industries we believe are indicative of higher risk to our portfolio. Factors reviewed by management include employment trends, macroeconomic trends, commercial real estate trends and the overall lending environment. Based on this review, an allocation is made to the allowance for credit and is reflected in the “unallocated” line of the previous table.

Investment Portfolio

Marketable securities that we hold in our investment portfolio, which are classified as “securities available for sale,” may be a source of liquidity; however, we do not anticipate liquidating the investments prior to maturity. As indicated in Note 19 “Fair Values of Assets and Liabilities,” $24.9 million of available for sale securities at December 31, 2013, are classified as Level 3 assets because of inactivity in the market.

Following is a detail schedule of the amortized cost of securities available for sale as of December 31:

	2013	2012	2011
	(dollars in thousands)		
Obligations of U.S. Government Agencies:			
Mortgage-Backed Securities—Residential	$22,639	$27,883	$32,139
Obligations of U.S. Government-Sponsored Enterprises:			
Mortgage-Backed Securities—Residential	1,009,519	839,102	771,196
Mortgage-Backed Securities—Commercial	104	148	193
Other Government-Sponsored Enterprises	267,971	241,970	267,807
Obligations of States and Political Subdivisions	80	82	444
Corporate Securities	6,693	6,703	11,811
Pooled Trust Preferred Collateralized Debt Obligations	42,040	51,866	54,762
Total Debt Securities	1,349,046	1,167,754	1,138,352
Equities	1,420	1,859	1,860
Total Securities Available for Sale	$1,350,466	$1,169,613	$1,140,212

As of December 31, 2013, securities available for sale had a fair value of $1.3 billion. Gross unrealized gains were $15.6 million and gross unrealized losses were $47.7 million.

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The following is a schedule of the contractual maturity distribution of securities available for sale at December 31, 2013.

	U.S. Government Agencies and Corporations	States and Political Subdivisions	Other Securities	Total Amortized Cost (a)	Weighted Average Yield (b)	
	(dollars in thousands)					
Within 1 year	$33,051	$80	$—	$33,131	1.06	%
After 1 but within 5 years	259,837	—	—	259,837	1.21	
After 5 but within 10 years	82,702	—	—	82,702	3.28	
After 10 years	924,643	—	48,733	973,376	2.31	
Total	$1,300,233	$80	$48,733	$1,349,046	2.13	%

(a) Equities are excluded from this schedule because they have an indefinite maturity.
(b) Yields are calculated on a taxable equivalent basis

Mortgage backed securities, which include mortgage backed obligations of U.S. Government agencies and obligations of U.S. Government-sponsored enterprises, have contractual maturities ranging from less than one year to approximately 30 years and have anticipated average lives to maturity ranging from less than one year to approximately thirteen years.

The amortized cost of the investment portfolio increased $180.9 million, or 15%, at December 31, 2013 compared to December 31, 2012. All categories of investments decreased, except for Obligations of U.S. Government sponsored enterprises which increased $196.4 million, or 18%. These securities were purchased in an effort to increase the earnings from investments while keeping the risk of the portfolio at a lower level.

Our investment portfolio includes an amortized cost of $42.0 million in pooled trust preferred collateralized debt obligations at December 31, 2013. The valuation of these securities involves evaluating relevant credit and structural aspects, determining appropriate performance assumptions and performing a discounted cash flow analysis.

See Note 8 “Investment Securities,” Note 9 “Impairment of Investment Securities,” and Note 19 “Fair Values of Assets and Liabilities” for additional information related to the investment portfolio.

Deposits

Total deposits increased $46.0 million, or 1%, in 2013, primarily due to growth in time deposits of $63.1 million. The change in time deposits can be attributed to an increase of $180.9 million in deposits generated from the Certificate of Deposit Account Registry Services program ("CDARS"), which provides a low cost alternative funding source.

Time deposits of $100 thousand or more had remaining maturities as follows as of the end of each year in the three-year period ended December 31:

	2013			2012			2011		
	Amount	%		Amount	%		Amount	%	
	(dollars in thousands)								
3 months or less	$234,295	51	%	$103,102	32	%	$76,356	24	%
Over 3 months through 6 months	85,573	18		58,680	18		43,299	13	
Over 6 months through 12 months	60,739	13		31,863	10		50,296	16	
Over 12 months	84,077	18		128,798	40		151,213	47	
Total	$464,684	100	%	$322,443	100	%	$321,164	100	%

Short-Term Borrowings and Long-Term Debt

Short-term borrowings increased $270.4 million, or 76%, from $356.2 million as of December 31, 2012 to $626.6 million at December 31, 2013. Long-term debt decreased $63.7 million, or 23%, from $280.2 million at December 31, 2012 to $216.6 million at December 31, 2013. The change in both of these areas was to take advantage of attractive interest rates in the wholesale funding markets as an alternative to certificates of deposit while paying off higher costing debt. For additional information concerning our short-term borrowings, subordinated debentures and other long-term debt, please refer to Note 16 "Short-term Borrowings," Note 17 "Subordinated Debentures" and Note 18 "Other Long-term Debt" of the Consolidated Financial Statements.

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Contractual Obligations and Off-Balance Sheet Arrangements

The table below sets forth our contractual obligations to make future payments as of December 31, 2013. For a more detailed description of each category of obligation, refer to the note in our Consolidated Financial Statements indicated in the table below.

	Footnote Number Reference	1 Year or Less	After 1 But Within 3 Years	After 3 But Within 5 Years	After 5 Years	Total
	(dollars in thousands)					
FHLB advances	18	$57,892	$80,360	$833	$5,300	$144,385
Subordinated debentures	17	—	—	—	72,167	72,167
Operating leases	13	3,409	6,019	5,167	14,916	29,511
Total contractual obligations		$61,301	$86,379	$6,000	$92,383	$246,063

The table above excludes unamortized premiums and discounts on FHLB advances because these premiums and discounts do not represent future cash obligations. The table also excludes our cash obligations upon maturity of certificates of deposit, which is set forth in Note 15 “Interest-Bearing Deposits” of the Consolidated Financial Statements.

In addition, see Note 12 “Commitments and Letters of Credit” for detail related to our off-balance sheet commitments to extend credit, financial standby letters of credit, performance standby letters of credit and commercial letters of credit as of December 31, 2013. Commitments to extend credit, standby letters of credit and commercial letters of credit do not necessarily represent future cash requirements since it is unknown if the borrower will draw upon these commitments and often these commitments expire without being drawn upon. As of December 31, 2013, a reserve for probable losses of $3.2 million was recorded for unused commitments and letters of credit.

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. Liquidity risk arises from the possibility that we may not be able to meet our financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, our Board of Directors has established a Liquidity Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on limits approved by our Board of Directors. This policy designates our Asset/Liability Committee (“ALCO”) as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our Treasury Department who monitors it by using such measures as liquidity coverage ratios, liquidity gap ratios and noncore funding ratios.

We generate funds to meet our cash flow needs primarily through the core deposit base of FCB and the maturity or repayment of loans and other interest-earning assets, including investments. 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 sometimes 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. Deposits increased $46.0 million, or 1%, during 2013, and comprised 84% of total liabilities at December 31, 2013, as compared to 87% at December 31, 2012. Proceeds from the maturity and redemption of investment securities totaled $356.7 million during 2013 and provided liquidity to fund loans as well as the purchase of additional investment securities.

We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the Federal Home Loan Bank of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank of Cleveland and access to certificates of deposit through brokers. We have increased our borrowing capacity at the Federal Reserve by establishing a Borrower-in-Custody of Collateral arrangement that enables us to pledge certain loans, not being used as collateral at the Federal Home Loan Bank, as collateral for borrowings at the Federal Reserve. At December 31, 2013 our borrowing capacity at the Federal Reserve related to this program was $807.1 million and there were no amounts outstanding. Additionally, as of December 31, 2013, our maximum borrowing capacity at the Federal Home Loan Bank of Pittsburgh was $1.5 billion and as of that date amounts used against this capacity included $622.4 million in outstanding borrowings and $32.8 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

We participate in the Certificate of Deposit Account Registry Services (“CDARS”) program as part of an ALCO strategy to increase and diversify funding sources. As of December 31, 2013, our maximum borrowing capacity under this program was $931.5 million and as of that date there was $251.2 million outstanding. We also participate in a reciprocal program which

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allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of December 31, 2013, our outstanding certificates of deposits from this program have an average weighted rate of 0.29% and an average original term of 207 days.

First Commonwealth has an unsecured $15.0 million line of credit with another financial institution. There are no amounts outstanding on this line as of December 31, 2013. As of December 31, 2013, we are in compliance with all debt covenants related to this agreement.

Refer to "Financial Condition" above for additional information concerning our deposits, loan portfolio, investment securities and borrowings.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Our market risk is composed primarily of interest rate risk. Interest rate risk is comprised of repricing risk, basis risk, yield curve risk and options risk. Repricing risk arises from differences in the cash flow or repricing between asset and liability portfolios. Basis risk arises when asset and liability portfolios are related to different market rate indices, which do not always change by the same amount. Yield curve risk arises when asset and liability portfolios are related to different maturities on a given yield curve; when the yield curve changes shape, the risk position is altered. Options risk arises from "embedded options" within asset and liability products as certain borrowers have the option to prepay their loans when rates fall, while certain depositors can redeem or withdraw their deposits early when rates rise.

The process by which we manage our interest rate risk is called asset/liability management. The goals of our asset/liability management are increasing net interest income without taking undue interest rate risk or material loss of net market value of our equity, while maintaining adequate liquidity. Net interest income is increased by growing earning assets and increasing the difference between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Liquidity is measured by the ability to meet both depositors' and credit customers' requirements.

We use an asset/liability model to measure our interest rate risk. Interest rate risk measures include earnings simulation and gap analysis. Gap analysis is a static measure that does not incorporate assumptions regarding future business. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. Our current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. Our net interest income simulations assume a level balance sheet whereby new volumes equal run-offs. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios. Reviewing these various measures provides us with a reasonably comprehensive view of our interest rate profile.

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 December 31, 2013 and 2012, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

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Following is the gap analysis as of December 31:

	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	$2,026,232	$215,614	$310,437	$2,552,283	$1,401,095	$282,761
Investments	106,382	54,440	209,855	370,677	586,363	387,180
Other interest-earning assets	3,012	—	—	3,012	—	—
Total interest-sensitive assets (ISA)	2,135,626	270,054	520,292	2,925,972	1,987,458	669,941
Certificates of deposit	373,426	146,037	231,283	750,746	338,488	6,488
Other deposits	2,595,780	—	—	2,595,780	—	—
Borrowings	698,899	7,595	50,179	756,673	81,192	5,302
Total interest-sensitive liabilities (ISL)	3,668,105	153,632	281,462	4,103,199	419,680	11,790
Gap	$(1,532,479)	$116,422	$238,830	$(1,177,227)	$1,567,778	$658,151
ISA/ISL	0.58	1.76	1.85	0.71	4.74	56.82
Gap/Total assets	24.66 %	1.87 %	3.84 %	18.94 %	25.23 %	10.59 %

	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 liabilities (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 %

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 would 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.

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The following table presents an analysis of the potential sensitivity of our annual net interest income to gradual changes in interest rates over a 12 month time frame versus if rates remained unchanged utilizing a flat balance sheet.

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
December 31, 2013	$(8,878)	$(4,355)	$(833)	$(646)
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 unprecedented low interest rate environment. Results of the 100 and 200 basis point decline in interest rate scenario is 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. For the years 2013 and 2012, the cost of our interest-bearing liabilities averaged 0.48% and 0.70%, respectively and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.79% and 4.18%, 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 to absorb 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.

First Commonwealth also maintains a reserve for unfunded loan commitments and letters of credit based upon credit risk and probability of funding. The reserve totaled $3.2 million at December 31, 2013, and is classified in “Other liabilities” on the Consolidated Statements of Financial Condition.

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructured loans. 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 alternate financing sources. In 2013, 82 loans totaling $10.4 million were identified as troubled debt restructurings resulting in specific reserves of $1.1 million.

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

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

The allowance for credit losses was $54.2 million at December 31, 2013 or 1.27% of loans outstanding compared to $67.2 million or 1.60% of loans outstanding at December 31, 2012. The decrease in the 2013 ratio compared to the 2012 ratio can be primarily attributed to a $10.3 million charge-off of a commercial nonperforming loan that had a specific reserve. In addition, as of December 31, 2013, several credit measures showed improvement compared to December 31, 2012. The level of

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criticized loans decreased $126.1 million from $288.5 million at December 31, 2012 to $162.4 million at December 31, 2013 and delinquency on accruing loans for the same period declined $8.8 million, or 40%.
The allowance for credit losses as a percentage of nonperforming loans was 91% at December 31, 2013 and 62% as of December 31, 2012. The allowance for credit losses includes specific allocations of $8.8 million related to nonperforming loans covering 15% of the total nonperforming balance at December 31, 2013 and specific allocations of $17.8 million covering 17% of the total nonperforming balance at December 31, 2012. The amount of allowance related to nonperforming loans was determined by using estimated fair values obtained from current appraisals and updated discounted cash flow analyses.

Management believes that the allowance for credit losses is at a level that is sufficient to absorb losses inherent in the loan portfolio at December 31, 2013.
The following table provides information on net charge-offs and nonperforming loans by loan category:

	For the Period Ended December 31, 2013			As of December 31, 2013		
	Net Charge-offs	% of Total Net Charge-offs	Net Charge-offs as a % of Average Loans	Nonperforming Loans	% of Total Nonperforming Loans	Nonperforming Loans as a % of Total Loans
	(dollars in thousands)					
Commercial, financial, agricultural and other	$17,944	55.75 %	0.42 %	$28,234	47.55 %	0.66 %
Real estate construction	272	0.84	0.01	3,900	6.57	0.09
Residential real estate	550	1.71	0.01	12,866	21.67	0.30
Commercial real estate	10,377	32.24	0.25	14,094	23.72	0.33
Loans to individuals	3,046	9.46	0.07	289	0.49	0.01
Total loans, net of unearned income	$32,189	100.00 %	0.76 %	$59,383	100.00 %	1.39 %

As the above table illustrates, commercial real estate and commercial financial, agricultural and other loan categories were the most significant portions of the nonperforming loans as of December 31, 2013. See discussions related to the provision for credit losses and loans for more information.

Results of Operations—2012 Compared to 2011
Summary of 2012 Results
Net income for 2012 was $42.0 million, or $0.40 per diluted share, as compared to a net income of $15.3 million, or $0.15 per diluted share, in 2011. The improvement in performance in 2012 was primarily the result of a $35.3 million decrease in provision expenses, a decrease of $2.0 million related to loss on sale or write-down of assets, and a $7.4 million decrease in credit risk recognized on interest rate swaps. Partially offsetting the aforementioned items are a $0.9 million decrease in net interest income, a $2.0 million decrease in net securities gains and a $3.6 million increase in operational losses.
Our return on average equity was 5.5% and return on average assets was 0.71% for 2012, compared to 2.0% and 0.27%, respectively, for 2011.
Average diluted shares for the year 2012 were 1% less than the comparable period in 2011 primarily due to the common stock buyback program authorized during 2012.
Net interest income, on a fully taxable equivalent basis, for 2012 was $2.1 million, or 1%, lower than 2011, primarily due to a $114.9 million, or 3%, increase in average interest bearing liabilities and a 19 basis point decrease in the net interest margin. Positively affecting net interest income in 2012 was a $97.2 million increase in average net free funds. Average net free funds are the excess of demand deposits, other noninterest-bearing liabilities and shareholders' equity over nonearning assets. Net interest margin, on a fully taxable equivalent basis was 3.61% in 2012 compared to 3.80% in 2011.

During the year-ended December 31, 2012, the net interest margin was challenged by the continuing low interest rate environment and decreasing rates earned on interest-earning assets. Despite a disciplined approach to pricing, runoff of existing assets earning higher interest rates continued to provide for lower yields on earning assets. Growth in earning assets helped offset the impact of runoff as average interest-earning assets increased $212.1 million, or 4%, compared to the comparable period in 2011.

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The taxable equivalent yield on interest-earning assets was 4.18% for the year-ended December 31, 2012, a decrease of 43 basis points from the 4.61% yield for the same period in 2011. This decline was attributed to the repricing of our variable rate assets in a low 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 0.70% for the year-ended December 31, 2012, compared to 0.99% for the same period in 2011.

Comparing the year-ended December 31, 2012 with the same period in 2011, changes in interest rates negatively impacted net interest income by $13.3 million. The lower yield on interest-earning assets adversely impacted net interest income by $22.7 million, while the decline in the cost of interest-bearing liabilities positively impacted net interest income by $9.4 million. We were 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, disciplined pricing strategies, loan growth and increasing our investment volumes within established interest rate risk management guidelines.

While decreases in interest rates and yields compressed the net interest margin, increases in average earning assets and low cost average interest-bearing liabilities neutralized the effect on net interest income. Changes in volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $11.3 million in the year-ended December 31, 2012 compared to the same period in 2011. Higher levels of interest-earning assets resulted in an increase of $9.2 million in interest income, while volume changes primarily attributed to the mix of deposits reduced interest expense by $2.1 million.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Information appearing in Item 7 of this report under the caption “Market Risk” is incorporated herein by reference in response to this item.

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ITEM 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

First Commonwealth is responsible for the preparation, the integrity, and the fair presentation of the Consolidated Financial Statements included in this annual report. The Consolidated Financial Statements and notes to the financial statements have been prepared in conformity with generally accepted accounting principles and include some amounts based upon management's best estimates and judgments.

First Commonwealth's management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), that is designed to produce reliable financial statements in conformity with generally accepted accounting principles. Under the supervision and with the participation of management, including First Commonwealth's principal executive officer and principal financial officer, First Commonwealth conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

All internal control systems, no matter how well designed, have inherent limitations, including the possibility that a control can be circumvented and that misstatements due to error or fraud may occur without detection. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Based on First Commonwealth's evaluation based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that internal control over financial reporting was effective as of December 31, 2013. The effectiveness of First Commonwealth's internal control over financial reporting as of December 31, 2013 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

First Commonwealth Financial Corporation
Indiana, Pennsylvania
March 3, 2014

/S/ T. Michael Price	/S/ Robert E. Rout
T. Michael Price	Robert E. Rout
President and Chief Executive Officer	Executive Vice President, Chief Financial Officer

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
First Commonwealth Financial Corporation:

We have audited First Commonwealth Financial Corporation's (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First Commonwealth Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Commonwealth Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. (COSO)

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of First Commonwealth Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 3, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Pittsburgh, Pennsylvania
March 3, 2014

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
First Commonwealth Financial Corporation:

We have audited the accompanying consolidated statements of financial condition of First Commonwealth Financial Corporation and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Commonwealth Financial Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Commonwealth Financial Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2014 expressed an unqualified opinion on the effectiveness of First Commonwealth Financial Corporation's internal control over financial reporting.

/s/ KPMG LLP
Pittsburgh, Pennsylvania
March 3, 2014

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2013	2012
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$74,427	$98,724
Interest-bearing bank deposits	3,012	4,258
Securities available for sale, at fair value	1,318,365	1,171,303
Other investments	35,444	28,228
Loans:		
Portfolio loans	4,283,833	4,204,704
Allowance for credit losses	(54,225)	(67,187)
Net loans	4,229,608	4,137,517
Premises and equipment, net	67,940	68,970
Other real estate owned	11,728	11,262
Goodwill	159,956	159,956
Amortizing intangibles, net	1,311	2,375
Bank owned life insurance	174,372	170,925
Other assets	138,698	141,872
Total assets	$6,214,861	$5,995,390
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$912,361	$883,269
Interest-bearing	3,691,502	3,674,612
Total deposits	4,603,863	4,557,881
Short-term borrowings	626,615	356,227
Subordinated debentures	72,167	105,750
Other long-term debt	144,385	174,471
Total long-term debt	216,552	280,221
Other liabilities	56,134	55,054
Total liabilities	5,503,164	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 as of December 31, 2013 and 2012; and 95,245,215 shares and 99,629,494 shares outstanding at December 31, 2013 and 2012, respectively	105,563	105,563
Additional paid-in capital	365,333	365,354
Retained earnings	334,748	315,608
Accumulated other comprehensive (loss) income, net	(20,588)	1,259
Treasury stock (10,318,240 and 5,933,961 shares at December 31, 2013 and 2012, respectively)	(73,359)	(41,777)
Total shareholders' equity	711,697	746,007
Total liabilities and shareholders' equity	$6,214,861	$5,995,390

The accompanying notes are an integral part of these Consolidated Financial Statements

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands, except share data)		
Interest Income			
Interest and fees on loans	$176,129	$187,258	$197,456
Interest and dividends on investments:			
Taxable interest	29,916	31,695	33,763
Interest exempt from federal income taxes	4	12	213
Dividends	302	104	49
Interest on bank deposits	7	6	64
Total interest income	206,358	219,075	231,545
Interest Expense			
Interest on deposits	15,596	21,454	33,496
Interest on short-term borrowings	1,262	1,070	728
Interest on subordinated debentures	3,128	5,684	5,568
Interest on other long-term debt	1,721	1,938	1,886
Total interest expense	21,707	30,146	41,678
Net Interest Income	184,651	188,929	189,867
Provision for credit losses	19,227	20,544	55,816
Net Interest Income after Provision for Credit Losses	165,424	168,385	134,051
Noninterest Income			
Changes in fair value on impaired securities	9,792	2,193	(425)
Noncredit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)	(9,792)	(2,193)	425
Net impairment losses	—	—	—
Net securities (losses) gains	(1,158)	192	2,185
Trust income	6,166	6,206	6,498
Service charges on deposit accounts	15,652	14,743	14,775
Insurance and retail brokerage commissions	6,005	6,272	6,376
Income from bank owned life insurance	5,539	5,850	5,596
Gain on sale of assets	2,153	4,607	4,155
Card related interchange income	13,746	13,199	11,968
Derivative mark to market	1,428	755	(6,687)
Other income	10,632	13,610	12,803
Total noninterest income	60,163	65,434	57,669
Noninterest Expense			
Salaries and employee benefits	86,012	86,069	84,669
Net occupancy expense	13,607	13,255	14,069
Furniture and equipment expense	15,118	12,460	12,517
Data processing expense	6,009	7,054	6,027
Pennsylvania shares tax expense	5,638	5,706	5,480
Intangible amortization	1,064	1,467	1,534
Collection and repossession expense	3,836	5,756	7,583
Other professional fees and services	3,731	4,329	5,297
FDIC insurance	4,366	5,032	5,490
Loss on sale or write-down of assets	1,054	7,394	9,428
Operational losses	1,115	4,367	779

Loss on early redemption of subordinated debt	1,629	—	—
Conversion related expenses	2,588	—	—
Other operating expenses	23,057	24,318	23,953
Total noninterest expense	168,824	177,207	176,826
Income before income taxes	56,763	56,612	14,894
Income tax provision (benefit)	15,281	14,658	(380)
Net Income	$41,482	$41,954	$15,274
Average Shares Outstanding	97,028,157	103,885,396	104,700,227
Average Shares Outstanding Assuming Dilution	97,029,832	103,885,663	104,700,393
Per Share Data:			
Basic Earnings Per Share	$0.43	$0.40	$0.15
Diluted Earnings Per Share	$0.43	$0.40	$0.15
Cash Dividends Declared per Common Share	$0.23	$0.18	$0.12

The accompanying notes are an integral part of these Consolidated Financial Statements

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
Net Income	$41,482	$41,954	$15,274
Other comprehensive (loss) income, before tax (benefit) expense:			
Unrealized holding (losses) gains on securities arising during the period	(44,767)	(2,854)	9,727
Non-credit related gains (losses) on securities not expected to be sold	9,792	2,193	(425)
Less: reclassification adjustment for losses (gains) on securities included in net income	1,158	(192)	(2,185)
Unrealized gains (losses) for postretirement obligations:			
Transition obligation	—	2	2
Net gain (loss)	219	(300)	(260)
Total other comprehensive (loss) income, before tax (benefit) expense	(33,598)	(1,151)	6,859
Income tax (benefit) expense related to items of other comprehensive (loss) income	(11,751)	(409)	2,400
Comprehensive Income	$19,635	$41,212	$19,733

The accompanying notes are an integral part of these Consolidated Financial Statements

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	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				41,482				41,482
Total other comprehensive loss					(21,847)			(21,847)
Cash dividends declared ($0.23 per share)				(22,344)				(22,344)
Discount on dividend reinvestment plan purchases			(112)					(112)
Treasury stock acquired	(4,462,638)					(32,217)		(32,217)
Treasury stock reissued	25,359		—	—		176		176
Restricted stock	53,000	—	91	2		459		552
Balance at December 31, 2013	95,245,215	$105,563	$365,333	$334,748	$(20,588)	$(73,359)	$—	$711,697

	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				41,954				41,954
Total other comprehensive loss					(742)			(742)
Cash dividends declared ($0.18 per share)				(18,759)				(18,759)
Net decrease in unearned ESOP shares							1,600	1,600
ESOP market value adjustment ($729, net of $255 tax benefit)			(474)					(474)

Discount on dividend reinvestment plan purchases			(92)					(92)
Tax benefit of stock options exercised			1					1
Treasury stock acquired	(5,662,700)					(37,464)		(37,464)
Treasury stock reissued	155,200		—	(379)		1,407		1,028
Restricted stock	220,000	—	51	(1,264)		1,625		412
Balance at December 31, 2012	99,629,494	$105,563	$365,354	$315,608	$1,259	$(41,777)	$—	$746,007

The accompanying notes are an integral part of these Consolidated Financial Statements.

	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, 2010	104,846,194	$105,515	$366,488	$291,492	$(2,458)	$(7,660)	$(3,600)	$749,777
Net income				15,274				15,274
Total other comprehensive income					4,459			4,459
Cash dividends declared ($0.12 per share)				(12,558)				(12,558)
Net decrease in unearned ESOP shares							2,000	2,000
ESOP market value adjustment ($1,053, net of $368 tax benefit)			(685)					(685)
Discount on dividend reinvestment plan purchases			(63)					(63)
Tax benefit of stock options exercised			6					6
Treasury stock acquired	(1,336)					(9)		(9)
Treasury stock reissued	13,760		—	(83)		155		72
Restricted stock	35,000	25	1	(69)		169		126
Common stock issued	23,376	23	121	—				144
Balance at December 31, 2011	104,916,994	$105,563	$365,868	$294,056	$2,001	$(7,345)	$(1,600)	$758,543

The accompanying notes are an integral part of these Consolidated Financial Statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
Operating Activities			
Net income	$41,482	$41,954	$15,274
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	19,227	20,544	55,816
Deferred tax expense (benefit)	12,704	2,551	(1,192)
Depreciation and amortization	11,090	7,912	9,026
Net losses on securities and other assets	431	1,838	9,776
Net amortization of premiums and discounts on securities	543	1,381	721
Net amortization of premiums and discounts on long-term debt	(117)	(113)	(124)
Income from increase in cash surrender value of bank owned life insurance	(5,539)	(5,850)	(5,596)
Decrease in interest receivable	921	2,689	1,276
Decrease in interest payable	(1,172)	(1,280)	(1,423)
Decrease in prepaid FDIC insurance	9,205	4,693	5,124
(Decrease) increase in income taxes payable	(615)	6,484	(5,362)
Other—net	(2,426)	(4,079)	803
Net cash provided by operating activities	85,734	78,724	84,119
Investing Activities			
Transactions with securities available for sale:			
Proceeds from sales	671	—	76,914
Proceeds from maturities and redemptions	356,667	574,846	480,250
Purchases	(539,894)	(605,435)	(723,805)
Purchases of FHLB stock	(18,120)	—	—
Proceeds from the redemption of FHLB stock	10,904	11,568	9,063
Proceeds from bank owned life insurance	2,092	2,501	238
Proceeds from the sale of loans	20,760	15,981	5,766
Proceeds from sales of other assets	12,713	17,660	23,756
Net (increase) decrease in loans	(143,438)	(178,321)	56,181
Purchases of premises and equipment	(9,635)	(10,182)	(8,320)
Net cash used in investing activities	(307,280)	(171,382)	(79,957)
Financing Activities			
Net (decrease) increase in federal funds purchased	(18,000)	(41,300)	62,500
Net increase in other short-term borrowings	288,387	84,750	62,417
Net increase (decrease) in deposits	46,006	53,256	(113,090)
Repayments of other long-term debt	(29,969)	(25,480)	(24,561)
Proceeds from issuance of long-term debt	—	100,000	29,600
Repayments of subordinated debentures	(34,702)	—	—
Proceeds from issuance of common stock	—	—	144
Discount on dividend reinvestment plan purchases	(112)	(92)	(63)
Dividends paid	(22,344)	(18,759)	(12,558)
Proceeds from reissuance of treasury stock	176	1,028	72
Purchase of treasury stock	(33,439)	(36,242)	(9)

Stock option tax benefit	—	1	6
Net cash provided by financing activities	196,003	117,162	4,458
Net (decrease) increase in cash and cash equivalents	(25,543)	24,504	8,620
Cash and cash equivalents at January 1	102,982	78,478	69,858
Cash and cash equivalents at December 31	$77,439	$102,982	$78,478

The accompanying notes are an integral part of these Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Statement of Accounting Policies

General

The following summary of accounting and reporting policies is presented to aid the reader in obtaining a better understanding of the consolidated financial statements of First Commonwealth Financial Corporation and its subsidiaries ("First Commonwealth") contained in this report.

The financial information is presented in accordance with generally accepted accounting principles and general practice for financial institutions in the United States of America. In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, these estimates and assumptions affect revenues and expenses in the financial statements and as such, actual results could differ from those estimates.

Through its subsidiaries, which include one commercial bank, an insurance agency and a financial advisor, First Commonwealth provides a full range of loan, deposit, trust, insurance and personal financial planning services primarily to individuals and small to middle market businesses in fifteen counties in central and western Pennsylvania. First Commonwealth determined it has one business segment.

First Commonwealth is subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine First Commonwealth for adherence to laws and regulations.

Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of First Commonwealth previously defined above. All material intercompany transactions have been eliminated in consolidation.

Equity investments of less than a majority but at least 20% ownership are accounted for by the equity method and classified as "Other assets." Earnings on these investments are reflected in "Other income" on the Consolidated Statements of Income, as appropriate, in the period earned.

First Commonwealth's variable interest entities ("VIEs") are evaluated under the guidance included in 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 these VIEs, 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.

Securities

Debt securities that First Commonwealth has the positive intent and ability to hold to maturity are classified as securities held to maturity and are reported at amortized cost adjusted for amortization of premium and accretion of discount on a level yield basis. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are to be classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as securities available for sale and are reported at fair value, with unrealized gains and losses that are not related to impairment excluded from earnings and reported as a component of other comprehensive income, which is included in shareholders' equity, net of deferred taxes.

First Commonwealth has securities classified as either held to maturity or available for sale and does not engage in trading activities. 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 the equity securities.

First Commonwealth conducts a comprehensive review of the investment portfolio on a quarterly basis to determine whether other-than-temporary impairment has occurred. Issuer-specific securities whose market values have fallen below their book values are initially selected for more in-depth analysis based on the percentage decline in value and duration of the decline. Issuer-specific securities include obligations of U.S. Government agencies and sponsored enterprises, single issue trust preferred securities, corporate debentures and obligations of states and political subdivisions. Further analysis of these securities includes a review of research reports, analysts' recommendations, credit rating changes, news stories, annual reports, impact of interest rate changes and any other relevant information pertaining to the affected security. Pooled trust preferred collateralized debt obligations are measured by evaluating all relevant credit and structural aspects, determining appropriate performance

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assumptions and performing a discounted cash flow analysis. This evaluation includes detailed credit, performance and structural evaluations for each piece of collateral. Other factors in the pooled trust preferred collateralized debt obligations valuation include terms of the structure, the cash flow waterfall (for both interest and principal), the over collateralization and interest coverage tests and events of default/liquidation. Based on this review, a determination is made on a case by case basis as to a potential impairment. Declines in the fair value of individual securities below their cost that are not expected to be recovered will result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as impairment losses.

Loans

Loans are carried at the principal amount outstanding. Unearned income on installment loans and leases is taken into income on a declining basis, which results in an approximate level rate of return over the life of the loan or the lease. Interest is accrued as earned. Loans held for sale are carried at the lower of cost or fair value determined on an individual basis.

First Commonwealth considers a loan to be past due and still accruing interest when payment of interest or principal is contractually past due but the loan is both well secured and in the process of collection. For installment, mortgage, term and other loans with amortizing payments that are scheduled monthly, 90 days past due is reached when four monthly payments are due and unpaid. For demand, time and other multi-payment obligations with payments scheduled other than monthly, delinquency status is calculated using number of days instead of number of payments. Revolving credit loans, including personal credit lines and home equity lines, are considered to be 90 days past due when the borrower has not made the minimum payment for four monthly cycles.

A loan is placed in nonaccrual status when, based on current information and events, it is probable that First Commonwealth will be unable to fully collect principal or interest due according to the contractual terms of the loan. A loan is also placed in nonaccrual status when, based on regulatory definitions, the loan is maintained on a “cash basis” due to the weakened financial condition of the borrower. When a determination is made to place a loan in nonaccrual status, all accrued and unpaid interest is reversed. Nonaccrual loans are restored to accrual status when, based on a sustained period of repayment by the borrower in accordance with the contractual terms of the loan, First Commonwealth expects repayment of the remaining contractual principal and interest or when the loan otherwise becomes well-secured and in the process of collection.

First Commonwealth considers a loan to be a troubled debt restructured loan when the loan 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.

A loan is considered to be impaired when, based on current information and events, it is probable that First Commonwealth will be unable to collect principal or interest that is due in accordance with contractual terms of the loan. Impaired loans include nonaccrual loans and troubled debt restructured loans. Loan impairment is measured based on the present value of expected cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. For loans other than those that First Commonwealth expects repayment through liquidation of the collateral, when the remaining recorded investment in the impaired loan is less than or equal to the present value of the expected cash flows, income is applied as a reduction to loan principal rather than interest income.

Loans deemed uncollectible are charged off through the allowance for credit losses. Factors considered in assessing ultimate collectibility include past due status, financial condition of the borrower, collateral values, and debt covenants including secondary sources of repayment by guarantors. Payments received on previously charged off loans are recorded as recoveries in the allowance for credit losses.

Loan Fees

Loan origination and commitment fees, net of associated direct costs, are deferred and the net amount is amortized as an adjustment to the related loan yield on the interest method, generally over the contractual life of the related loans or commitments.

Other Real Estate Owned

Real estate, other than bank premises, is recorded at fair value less estimated selling costs at the time of acquisition. After that time, other real estate is carried at the lower of cost or fair value less estimated costs to sell. Fair value is determined based on an independent appraisal. Expenses related to holding the property and rental income earned on the property are generally reflected in earnings in the current period. Depreciation is not recorded on the other real estate owned properties.

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Allowance for Credit Losses

First Commonwealth maintains an allowance for credit losses at a level deemed sufficient to absorb losses that are inherent in the loan portfolio. First Commonwealth's management determines and reviews with the Board of Directors 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 problem loans, delinquency and loss experience trends, and other relevant factors, all of which may be susceptible to significant changes.

The major loan classifications used in the allowance for credit losses calculation include pass, other assets especially mentioned ("OAEM"), substandard and doubtful. Additional information related to these credit quality categories is provided in Note 10 "Loans and Allowance for Credit Losses".

First Commonwealth consistently applies the following comprehensive methodology and procedure for determining the allowance for credit losses.

All impaired credits in excess of $100 thousand are individually reviewed quarterly. A specific reserve is established for impaired loans that is equal to the total amount of probable unconfirmed losses for the impaired loans that are reviewed. Based on this reserve as a percentage of reviewed loan balances, a reserve is also established for the impaired loan balances that are not individually reviewed.

The allowance calculation uses historical charge-off trends to estimate probable unconfirmed losses for each loan category. A multiplier known as the emergence factor is applied to the historical loss rates for non-criticized loans. The emergence factor is calculated by loan category and represents the average time period from when a loan becomes delinquent until it is charged off. Before applying the adjusted historical loss experience percentages, loan balances are reduced by the portion of the loan balances which are subject to guarantee by a government agency.

An additional allowance is made by management based on a qualitative analysis of certain factors related to portfolio risks and economic conditions. Factors considered by management include employment trends, macroeconomic trends, commercial real estate trends and the overall lending environment. Portfolio risks include unusual changes or recent trends in specific portfolios such as unexpected changes in the trends or levels of delinquency. No matter how detailed an analysis of potential credit losses is performed, these estimates are not precise. Management must make estimates using assumptions and information that is often subjective and changes rapidly.

Allowance for Off-Balance Sheet Credit Exposures

First Commonwealth maintains an allowance for off-balance sheet credit exposure at a level deemed sufficient to absorb losses that are inherent to off-balance sheet credit risk. Management determines the adequacy of the allowance on a quarterly basis charging the provision 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. The Company's methodology for assessing the appropriateness of the allowance for off-balance sheet credit exposure consists of analysis of historical usage trends as well as loss history and probability of default rates related to the off-balance sheet category. The calculation begins with historical usage trends related to lines of credit as well as letters of credit and then utilizes those figures to determine the probable usage of available lines. These values are then adjusted by a determined probability of default as well as a loss given default. This amount is adjusted quarterly and reported as part of other operating expenses on the Consolidated Statements of Income.

Bank Owned Life Insurance

First Commonwealth purchased insurance on the lives of certain groups of employees. The policies accumulate asset values to meet future liabilities including the payment of employee benefits such as health care. Increases in the cash surrender value are recorded in the Consolidated Statements of Income. Under some of these policies, the beneficiaries receive a portion of the death benefit. The net present value of the future death benefits scheduled to be paid to the beneficiaries was $3.6 million and $3.8 million as of December 31, 2013 and 2012, respectively, and is reflected in "Other Liabilities" on the Consolidated Statements of Financial Condition.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation on First Commonwealth's Consolidated Statements of Financial Condition. Depreciation is computed on the straight-line and accelerated methods over the estimated useful life of the asset. A straight-line depreciation method was used for substantially all furniture and equipment. The straight-line depreciation method was used for buildings and improvements. Charges for maintenance and repairs are expensed as incurred. Leasehold improvements are expensed over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

When developing software, First Commonwealth expenses costs that are incurred during the preliminary project stage and capitalizes certain costs that are incurred during the application development stage. Once software is in operation, maintenance costs are expensed over the maintenance period while upgrades that result in additional functionality or enhancements are capitalized. Training and data conversion costs are expensed as incurred. Capitalized software development costs and purchased software are amortized on a straight-line basis over a period not to exceed seven years, except for one software license that is being amortized over ten years.

Goodwill

Intangible assets resulting from acquisitions under the purchase method of accounting consist of goodwill and other intangible assets (see "Other Intangible Assets" section below). Goodwill is not amortized and is subject to at least annual assessments for impairment by applying a fair value based test. First Commonwealth reviews goodwill annually and again at any quarter-end if a material event occurs during the quarter that may affect goodwill. If goodwill testing is required, an assessment of qualitative factors can be completed before performing the two step goodwill impairment test. 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. Goodwill is evaluated for potential impairment by determining if our fair value has fallen below carrying value.

Other Intangible Assets

Other intangible assets consist of core deposits obtained through acquisitions and are amortized over their estimated lives using the present value of the benefit of the core deposits and straight-line methods of amortization. Core deposit intangibles are evaluated for impairment on an annual basis and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Accounting for the Impairment of Long-Lived Assets

First Commonwealth reviews long-lived assets, such as premises and equipment and intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These changes in circumstances may include a significant decrease in the market value of an asset or the extent or manner in which an asset is used. If there is an indication that the carrying amount of an asset may not be recoverable, future undiscounted cash flows expected to result from the use of the asset are estimated. If the sum of the expected cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the carrying value and fair value of the asset. Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Depreciation or amortization is discontinued on long-lived assets classified as held for sale.

Income Taxes

First Commonwealth records taxes in accordance with the asset and liability method of FASB ASC Topic 740, "Income Taxes," whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases given the provisions of the enacted tax laws. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are more likely than not expected to be realized based upon available evidence. In accordance with FASB ASC Topic 740, interest or penalties incurred for taxes will be recorded as a component of noninterest expense.

Comprehensive Income Disclosures

"Other Comprehensive Income" (comprehensive income, excluding net income) includes the after tax effect of changes in unrealized holding gains and losses on available-for-sale securities and changes in the funded status of defined benefit postretirement plans. Comprehensive income is reported in the accompanying Consolidated Statements of Comprehensive Income, net of tax.

Cash and Cash Equivalents

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.

Employee Stock Ownership Plan

Accounting treatment for First Commonwealth's Employee Stock Ownership Plan ("ESOP") described in Note 22 "Unearned ESOP Shares" follows FASB ASC Topic 718, "Compensation—Stock Compensation" for ESOP shares acquired after December 31, 1992 ("new shares"). First Commonwealth's ESOP borrowed funds are guaranteed by First

Commonwealth. The ESOP shares purchased subject to the debt guaranteed by First Commonwealth are recorded as a reduction of common

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shareholders' equity by recording unearned ESOP shares. Shares are committed to be released to the ESOP Trust for allocation to plan participants through loan payments. As the shares are committed to be released, the unearned ESOP shares account is credited for the average cost of the shares collateralizing the ESOP borrowed funds. Compensation cost is recognized for these shares in accordance with the provisions of FASB ASC Topic 718 and is based upon the fair market value of the shares that are committed to be released. Additional paid-in capital is charged or credited for the difference between the fair value of the shares committed to be released and the cost of those shares to the ESOP. The borrowed funds related to the unearned ESOP shares were paid off in November 2012.

Dividends on unallocated ESOP shares were used for debt service and are reported as a reduction of debt and accrued interest payable. Dividends on allocated ESOP shares were charged to retained earnings and allocated or paid to the plan participants. The average number of common shares outstanding used in calculating earnings per share excludes all unallocated ESOP shares.

Derivatives and Hedging Activities

First Commonwealth accounts for derivative instruments and hedging activities in accordance with FASB ASC Topic 815, "Derivatives and Hedging." All derivatives are evaluated at inception as to whether or not they are hedging or non-hedging activities, and appropriate documentation is maintained to support the final determination. First Commonwealth recognizes all derivatives as either assets or liabilities on the Consolidated Statements of Financial Condition and measures those instruments at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

When First Commonwealth purchases a portion of a commercial loan that has an existing interest rate swap, it enters a Risk Participation Agreement with the counterparty and assumes the credit risk of the loan customer related to the swap. Any fee paid to First Commonwealth as a result of the risk participation agreement is offset by credit risk of the counterparties and is recognized in the income statement. Credit risk on the risk participation agreements is determined after considering the risk rating, probability of default and loss of given default of the counterparties.

Management periodically reviews contracts from various functional areas of First Commonwealth to identify potential derivatives embedded within selected contracts. As of December 31, 2013, First Commonwealth has interest derivative positions that are not designated as hedging instruments. See Note 7 "Derivatives" for a description of these instruments.

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period less any unallocated ESOP shares.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. For all periods presented, the dilutive effect on average shares outstanding is the result of compensatory stock options outstanding and unvested restricted stock grants.

Fair Value Measurements

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures," First Commonwealth groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions 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. 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 securities include U.S. Government securities issued by Agencies and Sponsored Enterprises, Obligations of States and Political Subdivisions, certain corporate securities, FHLB stock, interest rate derivatives that include interest rate swaps, risk participation agreements and foreign currency contracts, certain other real estate owned and certain impaired loans.

- 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 evaluation are unobservable and/or there is very little, if any,

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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 select Obligations of States and Political Subdivisions, corporate securities, pooled trust preferred collateralized debt obligations, nonmarketable equity investments, certain other real estate owned, certain impaired loans and loans held for sale.

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon pricing models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and our creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. See Note 19 “Fair Values of Assets and Liabilities” for additional information.

Note 2—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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Note 3—Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income in the Consolidated Statements of Comprehensive Income as of December 31. Reclassification adjustments related to securities available for sale are included in the "Net securities gains" line in the Consolidated Statements of Income. The non-credit related (losses) gains on securities not expected to be sold are included in the "Noninterest Income" section of the Consolidated Statements of Income.

	2013			2012			2011		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)								
Unrealized gains (losses) on securities:									
Unrealized holding (losses) gains on securities arising during the period	$(44,767)	$15,660	$(29,107)	$(2,854)	$1,006	$(1,848)	$9,727	$(3,404)	$6,323
Non-credit related gains (losses) on securities not expected to be sold	9,792	(3,427)	6,365	2,193	(768)	1,425	(425)	149	(276)
Reclassification adjustment for losses (gains) on securities included in net income	1,158	(405)	753	(192)	67	(125)	(2,185)	765	(1,420)
Total unrealized (losses) gains on securities	(33,817)	11,828	(21,989)	(853)	305	(548)	7,117	(2,490)	4,627
Unrealized gains (losses) for postretirement obligations:									
Transition obligation	—	—	—	2	(1)	1	2	(1)	1
Net gain (loss)	219	(77)	142	(300)	105	(195)	(260)	91	(169)
Total unrealized gains (losses) for postretirement obligations	219	(77)	142	(298)	104	(194)	(258)	90	(168)
Total other comprehensive (loss) income	$(33,598)	$11,751	$(21,847)	$(1,151)	$409	$(742)	$6,859	$(2,400)	$4,459

The following table details the change in components of OCI for the year-ended December 31:

2013	2012	2011

	Securities Available for Sale	Post-Retirement Obligation	Accumulated Other Comprehensive Income	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 January 1	$1,121	$ 138	$ 1,259	$1,669	$ 332	$ 2,001	$(2,958)	$ 500	$ (2,458)
Other comprehensive loss before reclassification adjustment	(22,742)		(22,742)	(423)		(423)	6,047		6,047
Amounts reclassified from accumulated other comprehensive income (loss)	753		753	(125)		(125)	(1,420)		(1,420)
Transition obligation		—	—		1	1		1	1
Net gain		142	142		(195)	(195)		(169)	(169)
Net other comprehensive loss during the period	(21,989)	142	(21,847)	(548)	(194)	(742)	4,627	(168)	4,459
Balance at December 31	$(20,868)	$ 280	$ (20,588)	$1,121	$ 138	$ 1,259	$1,669	$ 332	$ 2,001

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Note 4—Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the year for interest and income taxes as well as detail on non-cash investing and financing activities for the years ended December 31:

	2013	2012	2011
	(dollars in thousands)		
Cash paid during the period for:			
Interest	$23,022	$31,597	$43,303
Income taxes	3,080	11,641	5,900
Non-cash investing and financing activities:			
ESOP loan reductions	$—	$1,600	$2,000
Loans transferred to other real estate owned and repossessed assets	12,326	4,979	34,269
Other real estate owned sold and settled out of period	348	—	—
Fair value of loans transferred from held to maturity to available for sale	20,135	—	14,235
Gross (decrease) increase in market value adjustment to securities available for sale	(33,792)	(874)	7,107
Unsettled treasury stock repurchases	—	1,222	—

Note 5—Earnings per Share

The following table summarizes the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ending December 31:

	2013	2012	2011
Weighted average common shares issued	105,563,455	105,563,455	105,550,310
Average treasury shares	(8,363,083)	(1,456,953)	(657,633)
Averaged unearned ESOP shares	—	(38,393)	(165,010)
Average unearned nonvested shares	(172,215)	(182,713)	(27,440)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	97,028,157	103,885,396	104,700,227
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	1,675	171	119
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	—	96	47
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	97,029,832	103,885,663	104,700,393

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 years ended December 31, because to do so would have been anti-dilutive.

	12/31/2013			12/31/2012			12/31/2011		
		Price Range			Price Range			Price Range	
	Shares	From	To	Shares	From	To	Shares	From	To
Stock Options	27,000	$14.41	$14.55	268,630	$6.90	$14.55	496,863	$6.36	$14.55
Restricted Stock	81,770	4.41	7.57	163,509	5.26	6.82	22,502	5.70	6.82

Note 6—Cash and Due from Banks

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts, such as checking accounts and NOW accounts. Reserves are maintained in the form of vault cash or balances held with the Federal Reserve Bank. First Commonwealth Bank maintained average balances of $2.9 million during 2013 and $3.6 million during 2012 with the Federal Reserve

Bank.

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Note 7—Derivatives

First Commonwealth is a party to interest rate derivatives that are not designated as hedging instruments. These derivatives relate to interest rate swaps that First Commonwealth enters into with customers to allow customers to convert variable rate loans to a fixed rate. First Commonwealth pays interest to the customer at a floating rate on the notional amount and receives interest from the customer at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the customer, an offsetting interest rate swap is entered into with another financial institution. First Commonwealth pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the customer, and receives interest from the financial institution for the same floating rate on the same notional amount. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss of given default for all counterparties.

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

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

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

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 at December 31:

	2013	2012
	(dollars in thousands)	
Credit value adjustment	$77	$(2,207)
Notional Amount:		
Interest rate derivatives	274,718	223,448
Interest rate caps	7,500	—
Risk participation agreements	82,197	71,390
Sold credit protection on risk participation agreements	(19,161)	—

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 Consolidated Statements of Income for the years ended December 31:

	2013	2012	2011
	(dollars in thousands)		
Non-hedging interest rate derivatives:			
Increase (decrease) in other income	$1,428	$755	$(6,687)

The 2013 increase in other income can be attributed to an improvement in the credit curves in the overall market. The fair value of our derivatives is included in a table in Note 19 “Fair Values of Assets and Liabilities,” in the line items “Other assets” and “Other liabilities.”

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Note 8—Investment Securities

Below is an analysis of the amortized cost and fair values of securities available for sale at December 31:

	2013				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	$22,639	$2,624	$(59)	$25,204	$27,883	$3,781	$—	$31,664
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	1,009,519	12,531	(27,163)	994,887	839,102	25,691	(392)	864,401
Mortgage-Backed Securities – Commercial	104	1	—	105	148	1	—	149
Other Government-Sponsored Enterprises	267,971	81	(1,927)	266,125	241,970	766	(72)	242,664
Obligations of States and Political Subdivisions	80	—	—	80	82	4	—	86
Corporate Securities	6,693	328	—	7,021	6,703	288	—	6,991
Pooled Trust Preferred Collateralized Debt Obligations	42,040	—	(18,517)	23,523	51,866	3	(28,496)	23,373
Total Debt Securities	1,349,046	15,565	(47,666)	1,316,945	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	$1,350,466	$15,565	$(47,666)	$1,318,365	$1,169,613	$30,650	$(28,960)	$1,171,303

Mortgage backed securities include mortgage backed obligations of U.S. Government agencies and obligations of U.S. Government-sponsored enterprises. These obligations have contractual maturities ranging from less than one year to approximately 30 years with lower anticipated lives to maturity due to prepayments. All mortgage backed securities contain a certain amount of risk related to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact upon prepayment speeds, therefore First Commonwealth uses computer simulation models to test the average life and yield volatility of all mortgage backed securities under various interest rate scenarios to monitor the potential impact on earnings and interest rate risk positions.

Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties. Other fixed income securities within the portfolio also contain prepayment risk.

During 2013, a loss of $1.3 million was recognized on the early redemption of a pooled trust preferred security with a book value of $6.6 million. Senior note holders elected to liquidate all assets of the trust, resulting in losses for the mezzanine notes owned by First Commonwealth.

In 2012, $5.1 million in single issue trust preferred securities and $0.2 million in pooled trust preferred securities were called by their issuers, providing security gains of $0.2 million.

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The amortized cost and fair value of debt securities at December 31, 2013, by contractual maturity, are shown below:

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	$33,080	$33,141
Due after 1 but within 5 years	234,971	233,065
Due after 5 but within 10 years	—	—
Due after 10 years	48,733	30,543
	316,784	296,749
Mortgage-Backed Securities (a)	1,032,262	1,020,196
Total Debt Securities	$1,349,046	$1,316,945

(a) Mortgage Backed Securities include an amortized cost of $22.6 million and a fair value of $25.2 million for Obligations of U.S. Government agencies issued by Ginnie Mae and Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac which had an amortized cost of $1,009.6 million and a fair value of $995.0 million.

Proceeds from sale, gross gains (losses) realized on sales, maturities and other-than-temporary impairment charges related to securities available for sale were as follows for the years ended December 31:

	2013	2012	2011
	(dollars in thousands)		
Proceeds from sales	$671	$—	$76,914
Gross (losses) gains realized:			
Sales Transactions:			
Gross gains	$233	$—	$2,368
Gross losses	—	—	(258)
	233	—	2,110
Maturities and impairment			
Gross gains	4	192	75
Gross losses	(1,395)	—	—
Other-than-temporary impairment	—	—	—
	(1,391)	192	75
Net gains and impairment	$(1,158)	$192	$2,185

Securities available for sale with an approximate fair value of $594.9 million and $631.0 million were pledged as of December 31, 2013 and 2012, respectively, to secure public deposits and for other purposes required or permitted by law.

Note 9—Impairment of Investment Securities

Securities Available for Sale

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 other comprehensive income ("OCI"). During the years ended December 31, 2013, 2012 and 2011 no other-than-temporary impairment charges were recognized. For the years ended December 31, 2013 and 2012, $9.8 million and $2.2 million in noncredit related gains on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. For the year ended December 31, 2011, $0.4 million in noncredit related losses for the same pool of securities was recorded in OCI. All of the securities for which other-than-temporary impairment was previously 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 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

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related gains or losses. Credit related losses occur when the entire amortized cost of the security will not be recovered. The “Noncredit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)” line represents the gains and losses on the securities resulting from factors other than credit. The noncredit related gain or loss is disclosed in the 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 determine 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 19 “Fair Values of Assets and Liabilities” for additional information.

The following table presents the gross unrealized losses and estimated fair values at December 31, 2013 by investment category and time frame for which the 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	$2,035	$(59)	$—	$—	$2,035	$(59)
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage-Backed Securities – Residential	632,231	(22,844)	65,324	(4,319)	697,555	(27,163)
Other Government-Sponsored Enterprises	183,542	(1,448)	24,501	(479)	208,043	(1,927)
Pooled Trust Preferred Collateralized Debt Obligations	2,401	(237)	21,122	(18,280)	23,523	(18,517)
Total Securities Available for Sale	$820,209	$(24,588)	$110,947	$(23,078)	$931,156	$(47,666)

At December 31, 2013, pooled trust preferred collateralized debt obligations accounted for 39% of unrealized losses, while fixed income securities issued by U.S. Government-sponsored enterprises comprised 61% of total unrealized losses.

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The following table presents the gross unrealized losses and estimated fair value at December 31, 2012 for available-for-sale and securities by investment category and time frame for which the securities had 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 December 31, 2013 and 2012, our corporate securities had an amortized cost and estimated fair value of $6.7 million and $7.0 million, respectively, and were comprised of single issue trust preferred securities issued primarily by money center and large regional banks. There were no corporate securities in an unrealized loss position as of December 31, 2013 and 2012. When unrealized losses exist, management reviews each of the issuer's asset quality, earnings trend and capital position, to determine whether issues in an unrealized loss position were other-than-temporarily impaired. All interest payments on the corporate securities are being made as contractually required.

As of December 31, 2013, the book value of our pooled trust preferred collateralized debt obligations totaled $42.0 million with an estimated fair value of $23.5 million, which includes securities comprised of 288 banks and other financial institutions. All of our pooled securities are mezzanine tranches, four of which have no senior class remaining in the issue. The credit ratings on all of the issues are below investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of December 31, 2013, after taking into account management's best estimates of future interest deferrals and defaults, five of our securities had no excess subordination in the tranches we own and five of our securities had excess subordination which ranged from 3% to 59% of the current performing collateral.

The following table provides additional information related to our pooled trust preferred collateralized debt obligations as of December 31, 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 IV	Mezzanine	$1,830	$1,264	$(566)	B1/B	6	18.05 %	58.54 %
Pre TSL V	Mezzanine	57	34	(23)	C/-	3	100.00	0.00

Pre TSL VII	Mezzanine	2,581	2,367	(214)	Ca/C	14	54.14	0.00
Pre TSL VIII	Mezzanine	1,956	1,100	(856)	C/C	30	58.01	0.00
Pre TSL IX	Mezzanine	2,304	1,173	(1,131)	Caa1/C	42	30.29	3.36
Pre TSL X	Mezzanine	1,388	1,291	(97)	Caa3/C	46	35.07	0.00
Pre TSL XII	Mezzanine	5,374	2,852	(2,522)	Caa3/C	68	30.26	0.00
Pre TSL XIII	Mezzanine	12,452	6,862	(5,590)	Caa3/C	61	31.09	16.78
Pre TSL XIV	Mezzanine	13,653	6,234	(7,419)	Ca/C	59	37.00	42.17
MMCap I	Mezzanine	445	346	(99)	Ca/C	11	58.76	10.41
Total		$42,040	$23,523	$(18,517)				

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities.

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All of the Company's pooled trust preferred securities are included in the non-exclusive list issued by the regulatory agencies and therefore are not considered covered funds under the Volcker Rule.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. For the year ended December 31, 2013, 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.

As of December 31, 2013, 2012 and 2011 none of the pooled trust preferred collateralized debt obligations were considered to be nonperforming 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 December 31, 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 issuers 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 288 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 December 31, 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 December 31, 2013, indicates that no credit related other-than-temporary impairment has occurred on our pooled trust preferred securities during the year ended December 31, 2013. Based upon the analysis performed by management, it is probable that five of our pooled trust preferred securities are expected to experience contractual principal and interest shortfalls and therefore appropriate other-than-temporary impairment charges were recorded in prior periods. These securities are identified in the table on page 61 with 0% "Excess Subordination as a % of Current Performing Collateral." For the remaining securities in the table, our analysis as of December 31, 2013 indicates it is probable that we will collect all contractual principal and interest payments. For four of those securities, PreTSL IX, PreTSL XIII, PreTSL XIV and MMCap I, other-than-temporary impairment charges were recorded in prior periods, however, due to improvement in the expected cash flows of these securities, it is now probable that all contractual payments will be received.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL IV. Our cash flow analysis as of December 31, 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 22% to 163% and will be recognized as an adjustment to yield over the remaining life of these securities.

The table below provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold for the years ended December 31:

	2013	2012	2011
	(dollars in thousands)		
Balance, beginning (a)	$43,274	$44,736	$44,850
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)	(2,375)	(1,462)	(114)
Reduction for debt securities called during the period	(13,356)	—	—
Balance, ending	$27,543	$43,274	$44,736

(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 either as principal payments or interest income during the period.

For the years ended December 31, 2013, 2012 and 2011, there was no impairment recognized on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment. As part of this evaluation we review 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. There were no equity securities in an unrealized loss position as of December 31, 2013 and 2012.

In the table above, the $13.4 million reduction in cumulative credit losses related to debt securities being called is a result of the early redemption of MMComm IX. The Senior note holders of this bond elected to liquidate all assets of the trust, resulting in losses for the mezzanine notes owned by First Commonwealth. Our book value before redemption was $6.6 million and at the time of redemption a loss of $1.3 million was recognized.

Other Investments

As a member of the 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 December 31, 2013 and 2012, our FHLB stock totaled $35.4 million and $28.2 million, respectively and is included in “Other investments” on the Consolidated Statements of Financial Condition.

Beginning in July 2013, the FHLB began repurchasing 100% of a members excess stock on a monthly basis. In the months prior to that in 2013 and 2012, the FHLB repurchased the lessor of 5% of the members’ total capital stock outstanding or its

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total excess capital stock on a quarterly basis. As a result, during the twelve months ended December 31, 2013 and 2012, $10.9 million and $11.6 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 September 30, 2013 filed with the SEC on November 7, 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 year ended December 31, 2013. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 10—Loans and Allowance for Credit Losses

The following table provides outstanding balances related to each of our loan types as of December 31:

	2013	2012
	(dollars in thousands)	
Commercial, financial, agricultural and other	$1,021,056	$1,019,822
Real estate construction	93,289	87,438
Residential real estate	1,262,718	1,241,565
Commercial real estate	1,296,472	1,273,661
Loans to individuals	610,298	582,218
Total loans and leases net of unearned income	$4,283,833	$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 provide 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 category for the years ended December 31:

2013	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	$943,107	$79,679	$1,245,422	$1,243,170	$610,094	$4,121,472
Non-Pass						
OAEM	35,429	9,710	5,161	28,823	1	79,124
Substandard	42,520	3,900	12,135	24,479	203	83,237
Doubtful	—	—	—	—	—	—
Total Non-Pass	77,949	13,610	17,296	53,302	204	162,361
Total	$1,021,056	$93,289	$1,262,718	$1,296,472	$610,298	$4,283,833

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 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.

Total gross charge-offs for the year ended December 31, 2013 and 2012 were $35.2 million and $17.0 million, respectively.

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 December 31, 2013. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

Risk factors associated with commercial real estate and construction related loans are monitored closely since this is an area that represents a significant portion of the loan portfolio and has experienced the most stress during the economic downturn.

Age Analysis of Past Due Loans by Segment

The following tables delineate the aging analysis of the recorded investments in past due loans as of December 31. 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.

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	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	$594	$319	$185	$23,631	$24,729	$996,327	$1,021,056
Real estate construction	—	—	—	2,567	2,567	90,722	93,289
Residential real estate	4,002	524	1,041	10,520	16,087	1,246,631	1,262,718
Commercial real estate	1,199	23	13	8,966	10,201	1,286,271	1,296,472
Loans to individuals	2,895	990	1,266	204	5,355	604,943	610,298
Total	$8,690	$1,856	$2,505	$45,888	$58,939	$4,224,894	$4,283,833

	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 table summarizes 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 or repayment for 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.

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Nonperforming loans decreased $48.2 million to $59.4 million at December 31, 2013 compared to $107.6 million at December 31, 2012. 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, a $2.1 million specialty plastics molding company in western Pennsylvania and a $2.3 million commercial loan to a western Pennsylvania excavation company were returned to accrual status during 2013. Additionally, $21.2 million in charge-offs were recognized on four commercial loan relationships during 2013, including $2.8 million for a commercial real estate loan to a western Pennsylvania non-profit healthcare facility which was foreclosed on during 2013, $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 $42.2 million of loans were moved into nonaccrual status during the year-ended December 31, 2013. Five commercial loan relationships comprise $32.8 million of this total. These relationships include:

- $12.7 million in commercial industrial loans to a local energy company,
- a $7.7 million commercial real estate loan to a real estate management company in western Pennsylvania. The total balance of this loan was subsequently paid off during 2013.
- 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 year-ended December 31, 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, $3.7 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 $9.0 million at December 31, 2013 compared to 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 December 31, 2013 and after consideration of available collateral related to these commitments, an off balance sheet reserve of $0.1 million was established.

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

Significant nonaccrual loans as of December 31, 2013, include the following:

- $12.3 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.
- $3.3 million commercial industrial loan to a specialty metals 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 second quarter of 2013.
- $2.4 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.
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$3.1 million commercial real estate loan relationship with a non-profit organization in western Pennsylvania. This loan was originated in 2008 and was placed on nonaccrual status in the second quarter of 2012. The appraisals for the real estate collateral were valued in the first and fourth quarters of 2013.

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The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of December 31, 2013 and 2012. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired for the years ended December 31, 2013, 2012 and 2011. Average balances are calculated based on month-end balances of the loans for the period reported and are included in the table below based on its period end allowance position.

	2013				
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest Income Recognized
	(dollars in thousands)				
With no related allowance recorded:					
Commercial, financial, agricultural and other	$6,752	$7,649		$14,454	$73
Real estate construction	3,486	6,664		5,923	47
Residential real estate	9,333	9,952		9,280	211
Commercial real estate	13,606	14,719		27,881	250
Loans to individuals	289	307		255	3
Subtotal	33,466	39,291		57,793	584
With an allowance recorded:					
Commercial, financial, agricultural and other	21,482	22,082	$7,364	16,479	64
Real estate construction	414	737	94	515	—
Residential real estate	3,533	3,585	1,282	3,200	31
Commercial real estate	488	612	84	188	—
Loans to individuals	—	—	—	—	—
Subtotal	25,917	27,016	8,824	20,382	95
Total	$59,383	$66,307	$8,824	$78,175	$679

	2012				
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, agricultural and other	$8,080	$8,983		$9,217	$173
Real estate construction	8,491	35,555		11,912	—
Residential real estate	7,928	8,401		8,114	72
Commercial real estate	33,259	35,401		28,574	66
Loans to individuals	256	256		103	2
Subtotal	58,014	88,596		57,920	313
With an allowance recorded:					
Commercial, financial, agricultural and other	26,532	27,412	$10,331	21,979	9
Real estate construction	2,756	3,087	300	1,457	—
Residential real estate	2,695	2,696	780	1,599	15
Commercial real estate	17,558	17,896	6,367	5,024	32
Loans to individuals	—	—	—	—	—
Subtotal	49,541	51,091	17,778	30,059	56

Total	$107,555	$139,687	$17,778	$87,979	$369

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	2011 Average recorded investment	Interest Income Recognized
	(dollars in thousands)	
With no related allowance recorded:		
Commercial, financial, agricultural and other	$3,887	$20
Real estate construction	23,254	10
Residential real estate	2,702	9
Commercial real estate	35,817	799
Loans to individuals	10	—
Subtotal	65,670	838
With an allowance recorded:		
Commercial, financial, agricultural and other	30,456	152
Real estate construction	14,465	—
Residential real estate	615	7
Commercial real estate	28,716	396
Loans to individuals	—	—
Subtotal	74,252	555
Total	$139,922	$1,393

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.

As a result of adopting the amendments in ASU 2011-2, all restructurings that occurred on or after January 1, 2011 were assessed for identification as troubled debt restructurings considering the new guidance. No additional troubled debt restructurings were identified for loans for which the allowance for credit losses would have previously been measured under a general allowance for credit losses methodology.

The following table provides detail as to the total troubled debt restructured loans and total commitments outstanding on troubled debt restructured loans as of December 31:

	2013	2012	2011
	(dollars in thousands)		
Troubled debt restructured loans			
Accrual status	$13,495	$13,037	$20,276
Nonaccrual status	16,980	50,979	44,841
Total	$30,475	$64,016	$65,117
Commitments			
Letters of credit	$—	$1,574	$12,580
Unused lines of credit	452	—	42
Total	$452	$1,574	$12,622

At December 31, 2013, troubled debt restructured loans decreased $33.5 million compared to December 31, 2012 and commitments related to troubled debt restructured loans decreased $1.1 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 decrease in commitments is due to the payoff of a loan with a $0.8 million unfunded commitment. The outstanding commitments as of December 31, 2011 were primarily committed to one loan relationship that paid off in full in January 2012.

During 2013, all decreases in balances between the pre-modification and post-modification balance are due to customer payments.

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During 2012, a $2.8 million nonaccrual loan to a water treatment plant and a $3.7 million accruing loan to a gas well servicing operation were each restructured with a twelve month principal forbearance. At December 31, 2012, the nonaccrual loan was fully reserved for while the the loan that was on accruing status was secured by company assets. During 2013, the accruing loan was placed in nonaccrual status. These loans are part of a $17.0 million commercial loan relationship with a shallow gas well operator whose business has been impacted by the sharp decline in natural gas prices due to the success of Marcellus deep well drilling. In addition to these two loans, other loans in this relationship include loans to a related exploration and production company and loans to the principal which are secured by real estate and investment securities. Also, in 2012 a $3.3 million commercial real estate loan was restructured with a six month maturity extension. This loan has remained on accruing status and the collateral shortfall is fully reserved. The remainder of changes in loan balances for 2012 between the pre-modification balance and the post-modification balance is due to customer payments.

During 2011, a $2.7 million charge-off was recorded in relation to the transfer to held for sale of one of the loans included in commercial real estate in the table below. The sale of this loan was completed in 2012. Three commercial real estate loans, totaling $10.2 million, were classified as troubled debt restructured loans during 2011 and subsequently paid off prior to December 31, 2011. In addition, $5.6 million was charged-off in the restructuring of one relationship modified during the fourth quarter of 2011. The loans in this relationship were sold during 2013. The remainder of changes in loan balances for 2011 between the pre-modification balance and the post-modification balance is due to customer payments.

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the years ending December 31:

	2013							
		Type of Modification						
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Other	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)							
Commercial, financial, agricultural and other	14	$3,462	$—	$1,677	$—	$ 5,139	$ 3,104	$906
Residential real estate	46	347	418	2,116	—	2,881	2,316	161
Commercial real estate	5	571	1,499	145	—	2,215	2,184	34
Loans to individuals	17	10	101	33	—	144	109	—
Total	82	$4,390	$2,018	$3,971	$—	$ 10,379	$ 7,713	$1,101

	2012							
		Type of Modification						
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Other	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)							
Commercial, financial,	12	$1,599	$187	$9,476	$—	$ 11,262	$ 11,335	$4,237

agricultural and other								
Real estate construction	2	1,697	—	—	—	1,697	2,133	200
Residential real estate	25	200	132	697	48	1,077	973	69
Commercial real estate	4	3,280	4,308	71	—	7,659	7,607	409
Loans to individuals	17	—	97	88	6	191	173	—
Total	60	$6,776	$4,724	$10,332	$54	$ 21,886	$ 22,221	$4,915

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	2011							
		Type of Modification						
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Other	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)							
Commercial, financial, agricultural and other	13	$100	$475	$2,218	$—	$ 2,793	$ 2,749	$743
Real estate construction	6	2,554	86	—	—	2,640	2,852	—
Residential real estate	10	—	515	601	—	1,116	1,100	65
Commercial real estate	22	17,202	24,226	2,311	—	43,739	25,292	507
Total	51	$19,856	$25,302	$5,130	$—	$ 50,288	$ 31,993	$1,315

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this footnote. 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 years ended December 31, 2013, 2012 and 2011, $2.0 million, $4.7 million and $25.2 million, respectively, of total rate modifications represent loans with modifications to the rate as well as payment due to reamortization.

A troubled debt restructuring is considered to be in default when a restructured loan is 90 days or more past due. As of December 31, 2013, one residential real estate loan totaling $19 thousand, restructured during 2013 was considered to be in default. At December 31, 2012, there were no loans restructured within the preceding twelve months which were considered to be in default. As of December 31, 2011, one commercial real estate loan totaling $4.1 million, restructured during the first quarter of 2011 was considered to be in default. This loan was transferred to held for sale as of December 31, 2011 and the sale was completed in 2012.

The following tables provide detail related to the allowance for credit losses for the years ended December 31. During 2013, the negative $5.9 million provision for credit losses related to the unallocated portion of the allowance is a result of it no longer being treated as a separate component of the allowance but instead is now incorporated into the reserve provided for each loan category. This portion of the allowance for credit losses reflects the qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experience.

	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	(18,399)	(773)	(1,814)	(10,513)	(3,679)	—	(35,178)
Recoveries	455	501	1,264	136	633	—	2,989
Provision (credit)	20,755	(2,056)	2,369	(286)	4,371	(5,926)	19,227
Ending Balance	$22,663	$6,600	$7,727	$11,778	$5,457	$—	$54,225
	$7,364	$94	$1,282	$84	$—	$—	$8,824

Ending balance: individually evaluated for impairment							
Ending balance: collectively evaluated for impairment	15,299	6,506	6,445	11,694	5,457	—	45,401
Loans:							
Ending balance	1,021,056	93,289	1,262,718	1,296,472	610,298		4,283,833
Ending balance: individually evaluated for impairment	27,251	3,844	9,349	12,151	—		52,595
Ending balance: collectively evaluated for impairment	993,805	89,445	1,253,369	1,284,321	610,298		4,231,238

2012 (dollars in thousands)	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
Allowance for credit losses:							
Beginning Balance	$18,200	$6,756	$8,237	$18,961	$4,244	$4,836	$61,234
Charge-offs	(5,207)	(3,601)	(3,828)	(851)	(3,482)	—	(16,969)
Recoveries	443	582	422	410	521	—	2,378
Provision	6,416	5,191	1,077	3,921	2,849	1,090	20,544
Ending Balance	$19,852	$8,928	$5,908	$22,441	$4,132	$5,926	$67,187
Ending balance: individually evaluated for impairment	$10,331	$300	$780	$6,367	$—	$—	$17,778
Ending balance: collectively evaluated for impairment	9,521	8,628	5,128	16,074	4,132	5,926	49,409
Loans:							
Ending balance	1,019,822	87,438	1,241,565	1,273,661	582,218		4,204,704
Ending balance: individually evaluated for impairment	33,443	11,177	6,444	49,123	—		100,187
Ending balance: collectively evaluated for impairment	986,379	76,261	1,235,121	1,224,538	582,218		4,104,517

2011 (dollars in thousands)	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
Allowance for credit losses:							
Beginning Balance	$21,700	$18,002	$5,454	$16,913	$4,215	$4,945	$71,229
Charge-offs	(7,114)	(28,886)	(4,107)	(24,861)	(3,325)	—	(68,293)
Recoveries	473	955	132	349	573	—	2,482
Provision (credit)	3,141	16,685	6,758	26,560	2,781	(109)	55,816
Ending Balance	$18,200	$6,756	$8,237	$18,961	$4,244	$4,836	$61,234
Ending balance: individually evaluated for impairment	$9,069	$2,960	$93	$1,114	$—	$—	$13,236
	9,131	3,796	8,144	17,847	4,244	4,836	47,998

Ending balance:
collectively
evaluated for
impairment
Loans: