FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q/A
August 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A (Amendment No. 1)

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

For the quarterly period ended June 30, 2013

Or

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

For the transition period from to

Commission File Number 001-11138

First Commonwealth Financial Corporation
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-1428528 (I.R.S. Employer Identification No.)
601 Philadelphia Street, Indiana, PA (Address of principal executive offices)	15701 (Zip Code)

724-349-7220
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Smaller reporting company ¨ Non-accelerated filer ¨
(Do not check if a smaller reporting company)

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

The number of shares outstanding of issuer's common stock, $1.00 par value, as of August 5, 2013, was 96,442,161.

Explanatory Note

On August 8, 2013, First Commonwealth Financial Corporation ("First Commonwealth") filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. The table under the heading "Capital Resources" of Part I, Item 2 of the Report, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), erroneously contained regulatory capital amounts and ratios as of June 30, 2012. The sole purpose of this amendment is to correct the information contained under the "Capital Resources" section of the MD&A. Except as specifically noted above, this amendment does not modify or update disclosures in the original Form 10-Q. Accordingly, this amendment does not reflect events occurring after the filing of the original Form 10-Q or modify or update any related or other disclosures.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q/A
INDEX

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ("First Commonwealth") for the three- and six-months ended June 30, 2013 and 2012, and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of words such as "may," "will," "should," "could," "would," "plan," "believe," "expect," "anticipate," "intend," "estimate" or words of similar meaning forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting us, summarizes several factors that could cause our actual results to differ materially from those anticipated or expected in these forward-looking statements:

- continued weakness in economic and business conditions, both nationally and in our markets, which could cause deterioration in credit quality, a further reduction in demand for credit and/or a further decline in real estate values;
- prolonged low interest rates, which could reduce our net interest margin;
- increases in defaults by borrowers and other delinquencies, which could result in increases in our provision for credit losses and related expenses;
- further declines in the market value of investment securities that are considered to be other-than-temporary, which would negatively impact our earnings and capital levels;
- cyber-attacks and fraud, which could disrupt our systems and services, breach the privacy of our customer and business information or result in loss of client assets;
- further declines in the valuations of real estate, which could negatively affect the creditworthiness of our borrowers and the value of collateral securing our loans;
- the assumptions used in calculating the appropriate amount to be placed into our allowance for credit losses may prove to be inaccurate;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- legislative and regulatory changes, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations, subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- changes in accounting standards and compliance requirements may have an adverse affect on our operating results and financial condition;
- competitive pressures among depository and other financial institutions, some of which may have greater financial resources or more attractive product or service offerings, may adversely affect growth or profitability of our products and services; and
- other risks and uncertainties described in this report and in the other reports that we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K.

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

Explanation of Use of Non-GAAP Financial Measure

In addition to the results of operations presented in accordance with generally accepted accounting principles ("GAAP"), First Commonwealth management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis. We believe this non-GAAP financial measure provides information useful to investors in understanding our underlying operational performance and our business and performance trends as it facilitates comparison with the performance of others in the financial services industry. Although we believe that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on page 41 for the six-months ended June 30, 2013 and 2012.

Results of Operations

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

Net Income

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

Net Interest Income

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

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

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

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

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

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

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

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

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

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

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

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.
(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
(c) Loan income includes loan fees earned.
(d) Average balances do not include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits, which were made for regulatory purposes.

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

6

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

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

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

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

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

Provision for Credit Losses

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

The table below provides a breakout of the provision for credit losses by loan category for the six-months ended June 30:

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

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

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

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

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

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

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

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

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

Noninterest Income

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

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

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

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

Noninterest Expense

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

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

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

9

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

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

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

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

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

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

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

Income Tax

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

We applied the “annual effective tax rate approach” to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income for the six-months ended June 30, 2013 and 2012.

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 26.2% and 26.7% for the six-months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, our deferred tax assets totaled $70.0 million. Based on our evaluation as of June 30, 2013, we determined that it is more likely than not that all of these assets will be realized. As a result, we did not record a valuation allowance against these assets. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

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

Net Income

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

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

Net Interest Income

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

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

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

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

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

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

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

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

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

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

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

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

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.
(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
(c) Loan income includes loan fees earned.
(d) Average balances do not include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits, which were made for regulatory purposes.

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

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

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

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

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

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

Provision for Credit Losses

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

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

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

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

13

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

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

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

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

Noninterest Income

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

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

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

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

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

Noninterest Expense

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

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

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

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

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

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

Income Tax

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

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income for the three-months ended June 30, 2013 and 2012.

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 25.7% and 27.0% for the three-months ended June 30, 2013 and 2012, respectively.

Liquidity

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets, including investments. During

15

the first six months of 2013, liquidity provided from the $175.2 million increase in deposits and proceeds of $20.3 million from the sale of loans provided funds to originate loans and purchase investment securities. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank ("FRB") of Cleveland and access to certificates of deposit through brokers.

In order to increase and diversify our funding sources, we participate in the Certificate of Deposit Account Registry Services ("CDARS") program as part of an Asset/Liability Committee ("ALCO") strategy to increase and diversify funding sources. As of June 30, 2013, our maximum borrowing capacity under this program was $921.1 million and as of that date there was $297.8 million outstanding. We also participate in a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of June 30, 2013, our outstanding certificates of deposits from this program have an average weighted rate of 0.27% and an average original term of 209 days.

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

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

First Commonwealth Financial Corporation has an unsecured $15.0 million line of credit with another financial institution and as of June 30, 2013 there are no amounts outstanding on this line.

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

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

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

Market Risk

The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate sensitive assets to rate sensitive liabilities repricing within a one-year period was 0.73 and 0.76 at June 30, 2013 and December 31, 2012, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months. The level of First Commonwealth's ratio is largely driven by the modeling of interest-bearing non-maturity deposits, which are included in the analysis as repricing within one year.

Gap analysis has limitations due to the static nature of the model that holds volumes and consumer behaviors constant in all economic and interest rate scenarios. Rate sensitive assets to rate sensitive liabilities repricing in one year could indicate reduced net interest income in a rising interest rate scenario, and conversely, increased net interest income in a declining interest rate scenario. However, the gap analysis incorporates only the level of interest-earning assets and interest-bearing liabilities and not the sensitivity each has to changes in interest rates. The impact of the sensitivity to changes in interest rates is provided in the table below the gap analysis. Following is the gap analysis as of June 30, 2013 and December 31, 2012:

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

	June 30, 2013					
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Over 1 Year Through 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	$1,980,698	$207,799	$317,325	$2,505,822	$1,383,428	$281,216
Investments	65,151	78,751	173,868	317,770	630,920	382,178
Other interest-earning assets	4,497	—	—	4,497	—	—
Total interest-sensitive assets (ISA)	2,050,346	286,550	491,193	2,828,089	2,014,348	663,394
Certificates of Deposit	396,964	98,958	204,920	700,842	485,706	8,462
Other deposits	2,637,097	—	—	2,637,097	—	—
Borrowings	514,129	115	7,712	521,956	131,150	5,524
Total interest-sensitive liabilitites (ISL)	3,548,190	99,073	212,632	3,859,895	616,856	13,986
Gap	$(1,497,844)	$187,477	$278,561	$(1,031,806)	$1,397,492	$649,408
ISA/ISL	0.58	2.89	2.31	0.73	3.27	47.43
Gap/Total assets	24.34 %	3.05 %	4.53 %	16.77 %	22.71 %	10.55 %

	December 31, 2012					
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Over 1 Year Through 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	$1,950,002	$222,705	$297,530	$2,470,237	$1,436,472	$203,477
Investments	61,914	78,904	142,411	283,229	579,320	328,546
Other interest-earning assets	4,258	—	—	4,258	—	—
Total interest-sensitive assets (ISA)	2,016,174	301,609	439,941	2,757,724	2,015,792	532,023
Certificates of Deposit	208,096	176,556	126,490	511,142	512,040	9,477
Other deposits	2,641,953	—	—	2,641,953	—	—
Borrowings	428,545	29,703	230	458,478	138,652	39,318
Total interest-sensitive liabilitites (ISL)	3,278,594	206,259	126,720	3,611,573	650,692	48,795
Gap	$(1,262,420)	$95,350	$313,221	$(853,849)	$1,365,100	$483,228
ISA/ISL	0.61	1.46	3.47	0.76	3.10	10.90
Gap/Total assets	21.06 %	1.59 %	5.23 %	14.24 %	22.77 %	8.06 %

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

Net interest income change (12 months)			
-200	-100	+100	+200

	(dollars in thousands)			
June 30, 2013	$(8,366)	$(4,473)	$(27)	$855
December 31, 2012	(8,204)	(4,767)	459	2,153

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current low interest rate environment. Results of the 100 and 200 basis point decline in interest rate scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1% and therefore cannot decline 100 or 200 basis points, yet our interest-sensitive assets are able to decline by these amounts. In the six-months ended June 30, 2013 and 2012, the cost of our interest-bearing liabilities averaged 0.53% and 0.76%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.82% and 4.29%, respectively.

17

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

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

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

Credit Risk

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

First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual impaired loans with a balance greater than $0.1 million, loss experience trends, delinquency and other relevant factors. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses.

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructurings. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources. In the first six months of 2013, thirty-two loans totaling $2.7 million were identified as troubled debt restructuring. Please refer to Note 10, "Loans and Allowance for Credit Losses," for additional information on troubled debt restructuring.

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

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

The allowance for credit losses was $57.5 million at June 30, 2013 or 1.36% of total loans outstanding compared to 1.60% reported at December 31, 2012 and 1.48% at June 30, 2012. The decline in the June 30, 2013 ratio when compared to December 31, 2012 can be attributed to an $8.1 million decline in specific reserves on nonperforming loans, primarily due to charge-offs taken during quarter. In addition, nonperforming balances decreased $34.5 million during the 2013. Criticized loans totaled $223.6 million at June 30, 2013 and represented 5% of the loan portfolio. The level of criticized loans decreased as of June 30, 2013 when compared to December 31, 2012, by $64.9 million, or 22%. Delinquency on accruing loans for the same period decreased $5.4 million, or 25%.

The allowance for credit losses as a percentage of nonperforming loans was 78.60% as of June 30, 2013 compared to 62.47% at December 31, 2012 and 72.61% at June 30, 2012. The amount of allowance related to nonperforming loans was determined by using fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific allocations of $9.7 million related to nonperforming loans covering 13% of the total nonperforming balance. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at June 30, 2013.

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

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

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

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

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

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

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

19

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

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

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

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

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

Capital Resources

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

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

On July 9, 2013, federal banking agencies approved changes to the regulatory capital framework which are effective beginning on January 1, 2015, with some items phasing in over a period of time. The most significant of these changes include higher minimum capital requirements, as the minimum tier I capital ratio increased from 4.0% to 6.0% and the

establishment of a new common equity tier I capital ratio with a minimum level of 4.5%. Additionally, the new rules improve the quality of capital by providing stricter eligibility criteria for regulatory capital instruments and provide for a phase-in, beginning January 1, 2016, of a capital conservation buffer of 2.5% of risk-weighted assets. This buffer provides a requirement to hold common equity tier 1 capital above the minimum risk-based capital requirements. Management currently expects First Commonwealth will remain well-capitalized after the adoption of these changes.
Under current regulations, quantitative measures to ensure capital adequacy require First Commonwealth to maintain minimum amounts and ratios of Total and Tier I capital (common and certain other “core” equity capital) to risk weighted assets, and of Tier I capital to average assets. As of June 30, 2013, First Commonwealth and its banking subsidiary met all capital adequacy requirements to which they are subject.

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

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

	Actual			Regulatory Minumum			Well Capitalized Regulatory		
	Capital Amount	Ratio		Capital Amount	Ratio		Capital Amount	Ratio	
	(dollars in thousands)								
Total Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$650,380	13.27	%	$392,041	8.00	%			
First Commonwealth Bank	621,934	12.70		391,814	8.00		$489,768	10.00	%
Tier I Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$590,546	12.05	%	$196,021	4.00	%			
First Commonwealth Bank	562,229	11.48		195,907	4.00		$293,861	6.00	%
Tier I Capital to Average Assets									
First Commonwealth Financial Corporation	$590,546	9.89	%	$238,765	4.00	%			
First Commonwealth Bank	562,229	9.48		237,126	4.00		$296,408	5.00	%

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

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

On July 24, 2013, First Commonwealth Financial Corporation declared a quarterly dividend of $0.06 per share payable on August 16, 2013 to shareholders of record as of August 5, 2013. The timing and amount of future dividends are at the discretion of First Commonwealth's Board of Directors based upon, among other factors, capital levels, asset quality, liquidity and current and projected earnings.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

Table of Contents

SIGNATURES

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

FIRST COMMONWEALTH FINANCIAL CORPORATION
(Registrant)

DATED: August 13, 2013	/s/ T. Michael Price T. Michael Price President and Chief Executive Officer
DATED: August 13, 2013	/s/ Robert E. Rout Robert E. Rout Executive Vice President and Chief Financial Officer