FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-K
March 13, 2013
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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, 2012

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 ¨ Accelerated filer x 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, 2012) was approximately $696,275,402.

The number of shares outstanding of the registrant s common stock, $1.00 Par Value as of March 7, 2013, was 99,298,120.

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 23, 2013 are incorporated by reference into Part III.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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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 as will, would, should, could or Forward-looking statements are based on assumptions of management and are only 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.

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, 2012, we had total assets of $6.0 billion, total loans of $4.2 billion, total deposits of $4.6 billion and shareholders equity of $746.0 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, 2012, the Bank operated 112 community banking offices throughout western and central Pennsylvania and a loan production office in downtown Pittsburgh, Pennsylvania. 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 120 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 50,000 ATMs. The Bank is also a member of the Freedom ATM Alliance, which affords cardholders surcharge-free access to a network of over 700 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.

In the fourth quarter of 2003, we acquired Pittsburgh Financial Corp., the holding company for Pittsburgh Savings Bank (dba BankPittsburgh), for a total cost of approximately $28.6 million. Pittsburgh Financial had total assets of approximately $376.4 million, with 7 branch offices and one loan production office in Allegheny and Butler counties of Pennsylvania. In the second quarter of 2004, we acquired GA Financial, Inc., the holding company for Great American Federal, for a total cost of approximately $176.7 million. GA Financial, Inc. had total assets of approximately $890.3 million, with 12 branch offices located in Allegheny County. In the third quarter of 2006, we acquired Laurel Capital Group, Inc. (Laurel), the holding company for Laurel Savings Bank, for a total cost of approximately $56.1 million. Laurel had total assets of approximately $314.3 million, with 8 branch offices located 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 49 branches in the Pittsburgh metropolitan statistical area and currently ranks ninth in deposit market share.

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ITEM 1. Business (Continued)

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, 2012, First Commonwealth and its subsidiaries employed 1,289 full-time employees and 193 part-time employees.

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,

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Bank Holding Company Regulation (Continued)

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 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

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Bank Regulations (Continued)

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;
- 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.

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Bank Regulations (Continued)

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 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. As of December 31, 2012, $9.2 million in pre-paid deposit insurance is included in other assets 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.

The separate deposit insurance coverage for non-interest-bearing transaction accounts that became effective on December 31, 2010 terminated on December 31, 2012.

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 three 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.

Market Risk Capital (Tier 3). Tier 3 capital includes qualifying unsecured subordinated debt.

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Capital Requirements (Continued)

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, 2012, FCB was a well-capitalized bank as defined by the FDIC. See Note 28 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 June 2012, the FRB published two notices of proposed rulemaking (the 2012 Capital Proposals) that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the current U.S. risk-based capital rules, which are based on the aforementioned Basel I capital accords of the Basel Committee. One of the 2012 Capital Proposals (the Basel III Proposal) addresses the components of capital and other issues affecting the numerator in banking institutions regulatory capital ratios and would implement the Basel Committee s December 2010 framework known as Basel III for strengthening international capital standards. The other proposal (the Standardized Approach Proposal) addresses risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios and would replace the existing Basel I-derived risk-weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee s 2004 Basel II capital accords. The 2012 Capital Proposals would also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies rules. As proposed, the Basel III Proposal and the Standardized Approach Proposal would come into effect on January 1, 2013 (subject to a phase-in period) and January 1, 2015 (with an option for early adoption), respectively; however, final rules have not yet been adopted, and the Basel III framework is therefore not yet applicable to First Commonwealth or FCB.

The Basel III Proposal, among other things: (1) introduces a new capital measure called Common Equity Tier 1 , (2) specifies that Tier 1 capital consist of Common Equity Tier 1 and Additional Tier 1 capital instruments meeting specified requirements, (3) defines Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (4) expands the scope of the deductions/adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, the Basel III Proposal will require First Commonwealth and FCB to maintain (1) a minimum ratio of Common Equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% Common Equity Tier 1 ratio as that buffer is phased in,

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Capital Requirements (Continued)

effectively resulting in a minimum ratio of Common Equity Tier 1 to risk-weighted assets of at least 7% upon full implementation), (2) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (3) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (4) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The Basel III Proposal also provides for a countercyclical capital buffer over and above the capital conservation buffer that is designed to absorb losses during periods of economic stress. The countercyclical capital buffer is applicable to only certain covered institutions and is not expected to have any current applicability to First Commonwealth or FCB.

The Basel III Proposal provides for a number of deductions from and adjustments to Common Equity Tier 1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from Common Equity Tier 1 to the extent that any one such category exceeds 10% of Common Equity Tier 1 or all such categories in the aggregate exceed 15% of Common Equity Tier 1. 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 Proposal, the effects of certain accumulated other comprehensive items are not excluded, which could result in significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of First Commonwealth s securities portfolio. The Basel III Proposal also requires the phase-out of certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies. Trust preferred securities no longer included in Tier 1 capital may nonetheless be included as a component of Tier 2 capital. Implementation of the deductions and other adjustments to Common Equity Tier 1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). 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 Standardized Approach Proposal would 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, including many residential mortgages and certain commercial real estate. Among other things, the Standardized Approach Proposal would:

- Apply a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

- Revise risk weightings for residential mortgage exposures to replace the current approach of a 50% risk weight for high-quality seasoned mortgages and a 100% risk-weight for all other mortgages with a risk weight of between 35% and 200% depending upon the mortgage s loan-to-value ratio and whether the mortgage is a category 1 or category 2 residential mortgage exposure (based on eight criteria that include the term, use of negative amortization, balloon payments and certain rate increases).

ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Capital Requirements (Continued)

- Assign a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.

- Provide for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).

- Provide for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.

- Eliminate the current 50% cap on the risk weight for over-the-counter derivatives.

In addition, the Standardized Approach Proposal also provides more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increases the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Management believes that, as of December 31, 2012, First Commonwealth and FCB would meet all capital adequacy requirements under the Basel III and Standardized Approach Proposals on a fully phased-in basis if such requirements were currently effective. There can be no guarantee that the Basel III and the Standardized Approach Proposals will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Corporation s net income and return on equity.

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. The Basel III framework contemplates that the LCR will remain subject to an observation period through mid-2013 and be implemented as a standard on January 1, 2015 and that the NSFR will be subject to an observation period through mid-2016 and be implemented as a minimum standard by January 1, 2018. These new standards are subject to further rulemaking and their terms may change before implementation. The federal banking agencies have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

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

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ITEM 1. Business (Continued)
Supervision and Regulation (Continued)

Anti-Money Laundering and the USA Patriot Act (Continued)

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 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.

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

As of December 31, 2012, 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). Since the beginning of the economic recession in 2008, declines in real estate values and weak demand for new construction, particularly outside of our core Pennsylvania market, have 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.

ITEM 1A. Risk Factors (Continued)

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.

During the quarter ending September 30, 2012, we incurred a $3.5 million charge in connection with fraudulent wire transfers involving the breach of a commercial client s computer system to gain access to our online banking system. There was no breach of First Commonwealth s systems, however, following this incident, we have enhanced our monitoring and security procedures to help prevent and mitigate the risk of fraudulent transfers. However, there can be no assurance that we will not incur fraud losses in the future.

ITEM 1A. Risk Factors (Continued)

We could suffer large losses due to the large size of certain loans.

As of December 31, 2012, we had 38 commercial loans with commitments greater than $15.0 million with an aggregate amount of such commitments equal to $907.8 million. If one or more of these large loans deteriorates or if the borrowers default, we could suffer losses which would have a significant impact on our earnings and financial condition.

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

We had net deferred tax assets of $64.1 million as of December 31, 2012. We did not establish a valuation allowance against our federal net deferred tax assets as of December 31, 2012 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, 2012, 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, 2012, we had single issuer trust preferred securities and trust preferred collateralized debt obligations with an aggregate book value of $51.9 million and an unrealized loss of approximately $23.4 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 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.

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ITEM 1A. Risk Factors (Continued)

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

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ITEM 1A. Risk Factors (Continued)

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.

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 112 banking offices of which 27 are leased and 85 are owned. We also lease one loan production offices.

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 26, Contingent Liabilities, which is incorporated herein by reference in response to this item.

ITEM 4. Mine Safety Disclosures

Not applicable

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, 2012 is set forth below:

I. Robert Emmerich, age 62, 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.

Leonard V. Lombardi, age 53, 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.

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Executive Officers of First Commonwealth Financial Corporation (Continued)

Norman J. Montgomery, age 45, has served as the Executive Vice President of Business Integration of First Commonwealth Bank since May 2011. He oversees First Commonwealth s product development, marketing 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 and audit areas.

T. Michael Price, age 50, 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.

Robert E. Rout, age 61, 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.

Matthew C. Tomb, age 36, 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, 2012, there were approximately 9,002 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
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

Period	High Sale	Low Sale	Cash Dividends Per Share
2011			
First Quarter	$ 7.36	$ 6.11	$ 0.03
Second Quarter	6.96	5.18	0.03
Third Quarter	5.89	3.66	0.03
Fourth Quarter	5.45	3.55	0.03

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 28, 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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ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities (Continued)

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, 2007, and the cumulative return is measured as of each subsequent fiscal year end.

	Period Ending					
Index	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**	**12/31/2012**
First Commonwealth Financial Corporation	100.00	123.31	47.39	72.88	55.32	73.75
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
KBW Regional Banking Index	100.00	81.42	63.41	76.34	72.41	82.12

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

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. The following table details the amount of shares repurchased under this program during the fourth quarter of 2012:

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, 2012	1,335,500	$ 6.78	1,335,500	4,860,568
November 30, 2012	1,694,409	6.29	1,694,409	3,302,800
December 31, 2012	1,290,274	6.69	1,290,274	1,838,716
Total	4,320,183	$ 6.56	4,320,183	

* Remaining number of shares approved under the Plan is estimated based on the market value of the Company s common stock of $6.55 at October 31, 2012, $6.41 at November 30, 2012 and $6.82 at December 31, 2012.

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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,				
	2012	2011	2010	2009	2008
	(dollars in thousands, except share data)				
Interest income	$ 219,075	$ 231,545	$ 268,360	$ 293,281	$ 327,596
Interest expense	30,146	41,678	61,599	86,771	138,998
Net interest income	188,929	189,867	206,761	206,510	188,598
Provision for credit losses	20,544	55,816	61,552	100,569	23,095
Net interest income after provision for credit losses	168,385	134,051	145,209	105,941	165,503
Net impairment losses	0	0	(9,193)	(36,185)	(13,011)
Net securities gains	192	2,185	2,422	273	1,517
Other income	65,242	55,484	56,005	55,237	54,325
Other expenses	177,207	176,826	171,226	171,151	158,615
Income (Loss) before income taxes	56,612	14,894	23,217	(45,885)	49,719
Income tax provision (benefit)	14,658	(380)	239	(25,821)	6,632
Net Income (Loss)	$ 41,954	$ 15,274	$ 22,978	$ (20,064)	$ 43,087
Per Share Data Basic					
Net Income (Loss)	$ 0.40	$ 0.15	$ 0.25	$ (0.24)	$ 0.58
Dividends declared	$ 0.18	$ 0.12	$ 0.06	$ 0.18	$ 0.68
Average shares outstanding	103,885,396	104,700,227	93,197,225	84,589,780	74,477,795
Per Share Data Diluted					
Net Income (Loss)	$ 0.40	$ 0.15	$ 0.25	$ (0.24)	$ 0.58
Average shares outstanding	103,885,663	104,700,393	93,199,773	84,589,780	74,583,236
At End of Period					
Total assets	$ 5,995,390	$ 5,841,122	$ 5,812,842	$ 6,446,293	$ 6,425,880
Investment securities	1,199,531	1,182,572	1,016,574	1,222,045	1,452,191
Loans and leases, net of unearned income	4,204,704	4,057,055	4,218,083	4,636,501	4,418,377
Allowance for credit losses	67,187	61,234	71,229	81,639	52,759
Deposits	4,557,881	4,504,684	4,617,852	4,535,785	4,280,343
Short-term borrowings	356,227	312,777	187,861	958,932	1,139,737
Subordinated debentures	105,750	105,750	105,750	105,750	105,750
Other long-term debt	174,471	101,664	98,748	168,697	183,493
Shareholders equity	746,007	758,543	749,777	638,811	652,779
Key Ratios					
Return on average assets	0.71%	0.27%	0.37%	(0.31)%	0.70%
Return on average equity	5.46	2.00	3.33	(3.06)	7.45
Net loans to deposits ratio	90.78	88.70	89.80	100.42	101.99
Dividends per share as a percent of net income per share	44.57	82.26	23.72	NA	117.54
Average equity to average assets ratio	12.95	13.33	11.26	10.16	9.35

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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, 2012, 2011 and 2010. 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, 2012, FCB operated 112 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.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Critical Accounting Policies and Significant Accounting Estimates (Continued)

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.

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, collateral valuations for classified loans that are not impaired, estimated losses for each loan category based on historical loss experience and delinquency trends by category using a four 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.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Critical Accounting Policies and Significant Accounting Estimates (Continued)

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 Discussion and Analysis of Financial Condition and Results of Operations and in Note 11 Impairment of Investment Securities and Note 21 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.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Critical Accounting Policies and Significant Accounting Estimates (Continued)

Goodwill and Other Intangible Assets (Continued)

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, 2012, 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, 2012, determined that the fair value of our goodwill exceeded its carrying value by approximately 6%. An assessment of qualitative factors was completed as of December 31, 2012 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 2012 Compared to 2011

Net Income

Net income for 2012 was $42.0 million, or $0.40 per diluted share, as compared to net income of $15.3 million, or $0.15 per diluted share, in 2011. The increase in 2012 performance was primarily the result of a $35.3 million

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Net Income (Continued)

decrease in provision expense, 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 that was authorized during 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 2012 was $4.4 million compared to $5.5 million in 2011.

Net interest income, on a fully taxable equivalent basis, was $193.3 million for the year-ended December 31, 2012, a $2.1 million, or 1%, decrease compared to $195.4 million for the same period in 2011. The net interest margin, on a fully taxable equivalent basis decreased 19 basis points, or 5%, to 3.61% in 2012 from 3.80% in 2011. 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.

During the year-ended December 31, 2012, the net interest margin has been challenged by the continuing low interest rate environment and decreasing rates earned on interest-earning assets. Despite a disciplined approach to pricing which has provided for maintaining the level of new volume spreads, runoff of existing assets which are earning higher interest rates has continued to provide for lower yields on earning assets. Growth in earning assets has helped to offset the impact of runoff, as average earning assets for the year increased $212.1 million, or 4%, compared to the comparable period in 2011. Positively impacting the net interest margin for the year 2012 was the recognition of $1.0 million in interest income related to the payoff of a loan that was previously in nonaccrual status and $0.5 million in interest income recognized as an adjustment of yield for a loan that was returned to accrual status. These contributed 3 basis points to the net interest margin for the year 2012. Given the current interest rate environment, 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 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 can be 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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Net Interest Income (Continued)

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 had a positive impact of $9.4 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.

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

Positively affecting net interest income was a $97.2 million increase in average net free funds at December 31, 2012 as compared to December 31, 2011. 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 a $90.0 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 runoff and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the year-ended December 31, 2012 decreased $205.2 million, or 15%, compared to the comparable period in 2011. The positive change in deposit mix is expected to continue as $511.1 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,		
	2012	2011	2010
	(dollars in thousands)		
Interest income per Consolidated Statements of Income	$ 219,075	$ 231,545	$ 268,360
Adjustment to fully taxable equivalent basis	4,392	5,500	9,174
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	223,467	237,045	277,534
Interest expense	30,146	41,678	61,599
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$ 193,321	$ 195,367	$ 215,935

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Net Interest Income (Continued)

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								
	2012			2011			2010		
	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	$ 4,329	$ 6	0.14%	$ 26,477	$ 64	0.24%	$ 37,043	$ 94	0.25%
Tax-free investment securities	271	18	6.64	4,852	328	6.76	120,239	8,025	6.67
Taxable investment securities	1,179,169	31,799	2.70	1,043,798	33,812	3.24	939,459	37,988	4.04
Loans, net of unearned income (b)(c)	4,165,292	191,644	4.60	4,061,822	202,841	4.99	4,467,338	231,427	5.18
Total interest-earning assets	5,349,061	223,467	4.18	5,136,949	237,045	4.61	5,564,079	277,534	4.99
Noninterest-earning assets:									
Cash	75,044			75,071			77,259		
Allowance for credit losses	(65,279)			(76,814)			(96,872)		
Other assets	581,321			593,248			592,612		
Total noninterest-earning assets	591,086			591,505			572,999		
Total Assets	$ 5,940,147			$ 5,728,454			$ 6,137,078		
Liabilities and Shareholders Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	$ 645,970	$ 286	0.04%	$ 607,756	$ 515	0.08%	$ 622,171	$ 751	0.12%
Savings deposits (d)	1,921,417	4,233	0.22	1,877,321	7,252	0.39	1,800,418	12,171	0.68
Time deposits	1,138,112	16,935	1.49	1,343,281	25,729	1.92	1,596,088	36,923	2.31
Short-term borrowings	402,196	1,070	0.27	182,864	728	0.40	488,078	1,948	0.40
Long-term debt	202,598	7,622	3.76	184,185	7,454	4.05	236,939	9,806	4.14
Total interest-bearing liabilities	4,310,293	30,146	0.70	4,195,407	41,678	0.99	4,743,694	61,599	1.30
Noninterest-bearing liabilities and shareholders equity:									
Noninterest-bearing demand deposits (d)	810,041			720,005			658,947		
Other liabilities	50,859			49,163			43,413		
Shareholders equity	768,954			763,879			691,024		
Total noninterest-bearing funding sources	1,629,854			1,533,047			1,393,384		
	$ 5,940,147			$ 5,728,454			$ 6,137,078		

Total Liabilities and Shareholders Equity						
Net Interest Income and Net Yield on Interest-Earning Assets	$ 193,321	3.61%	$ 195,367	3.80%	$ 215,935	3.88%

(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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Net Interest Income (Continued)

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					
	2012 Change from 2011			2011 Change from 2010		
	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	$ (58)	$ (53)	$ (5)	$ (30)	$ (26)	$ (4)
Tax-free investment securities	(310)	(310)	0	(7,697)	(7,696)	(1)
Taxable investment securities	(2,013)	4,386	(6,399)	(4,176)	4,215	(8,391)
Loans	(11,197)	5,163	(16,360)	(28,586)	(21,006)	(7,580)
Total interest income (b)	(13,578)	9,186	(22,764)	(40,489)	(24,513)	(15,976)
Interest-bearing liabilities:						
Interest-bearing demand deposits	(229)	31	(260)	(236)	(17)	(219)
Savings deposits	(3,019)	172	(3,191)	(4,919)	523	(5,442)
Time deposits	(8,794)	(3,939)	(4,855)	(11,194)	(5,840)	(5,354)
Short-term borrowings	342	877	(535)	(1,220)	(1,221)	1
Long-term debt	168	746	(578)	(2,352)	(2,184)	(168)
Total interest expense	(11,532)	(2,113)	(9,419)	(19,921)	(8,739)	(11,182)
Net interest income	$ (2,046)	$ 11,299	$ (13,345)	$ (20,568)	$ (15,774)	$ (4,794)

(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 provision for credit losses for the year 2012 totaled $20.5 million, a decrease of $35.3 million, or 63%, compared to the year 2011. This provision exceeded net credit losses for the year 2012 by $14.6 million.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Provision for Credit Losses (Continued)

The table below provides a breakout of the provision for credit losses by loan category for the years ended December 31:

	2012		2011	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$ 6,416	31%	$ 3,141	6%
Real estate construction	5,191	26	16,685	30
Residential real estate	1,077	5	6,758	12
Commercial real estate	3,921	19	26,560	47
Loans to individuals	2,849	14	2,781	5
Unallocated	1,090	5	(109)	0
Total	$ 20,544	100%	$ 55,816	100%

As evidenced by the table, the current year provision is largely the result of the commercial financial, agricultural and other, real estate construction and commercial real estate portions of the portfolio.

The provision for credit losses for commercial, financial, agricultural and other loans is primarily due to increases of $4.9 million in specific reserves related to three loan relationships that were placed in nonaccrual status during 2012. Of the $5.2 million provision for credit losses related to construction loans, $4.6 million can be attributed to the impact historical losses had on the allowance for loan loss calculation. The commercial real estate provision for credit losses can be attributed to specific reserves of $5.3 million related to two loan relationships that were placed in nonaccrual status during 2012. The $1.1 million unallocated provision for credit losses is a result of management s analysis of certain qualitative factors impacting the reserve for credit losses and concern over the impact of the continued difficult economic conditions being experienced by our borrowers. This analysis included factors related primarily to portfolio risk and the impact of economic conditions on our portfolio.

The allowance for credit losses was $67.2 million, or 1.60%, of total loans outstanding at December 31, 2012, compared to $61.2 million, or 1.51%, at December 31, 2011. Nonperforming loans as a percentage of total loans decreased to 2.56% at December 31, 2012 from 2.76% at December 31, 2011. The allowance to nonperforming loan ratio was 62% as of December 31, 2012 and 2011. The decline in net charge-offs for the year contributed to the lower level of provision for credit losses for the year-ended December 31, 2012.

Net credit losses were $14.6 million for the year-ended December 31, 2012 compared to $65.8 million for the same period in 2011. The most significant credit losses recognized during the year-ended December 31, 2012, were a $2.2 million partial charge-off of a construction loan for a Florida condominium project and a $1.2 million partial charge-off of a commercial borrower in the shallow gas well business. Net credit losses during the period did not include any other significant individual charge-offs.

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 increase 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 the economy. 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, 2012.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Provision for Credit Losses (Continued)

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

	2012	2011	2010	2009	2008
			(dollars in thousands)		
Loans outstanding at end of year	$ 4,204,704	$ 4,057,055	$ 4,218,083	$ 4,636,501	$ 4,418,377
Average loans outstanding	$ 4,165,292	$ 4,061,822	$ 4,467,338	$ 4,557,227	$ 4,084,506
Balance, beginning of year	61,234	71,229	81,639	52,759	42,396
Loans charged off:					
Commercial, financial, agricultural and other	5,207	7,114	22,293	20,536	3,640
Real estate construction	3,601	28,886	41,483	36,892	67
Residential real estate	3,828	4,107	5,226	4,604	2,529
Commercial real estate	851	24,861	2,466	7,302	3,479
Loans to individuals	3,482	3,325	3,841	4,378	4,166
Total loans charged off	16,969	68,293	75,309	73,712	13,881
Recoveries of loans previously charged off:					
Commercial, financial, agricultural and other	443	473	2,409	448	426
Real estate construction	582	955	0	0	0
Residential real estate	422	132	252	81	14
Commercial real estate	410	349	163	914	187
Loans to individuals	521	573	523	580	522
Total recoveries	2,378	2,482	3,347	2,023	1,149
Net credit losses	14,591	65,811	71,962	71,689	12,732
Provision charged to expense	20,544	55,816	61,552	100,569	23,095
Balance, end of year	$ 67,187	$ 61,234	$ 71,229	$ 81,639	$ 52,759
Ratios:					
Net credit losses as a percentage of average loans outstanding	0.35%	1.62%	1.61%	1.57%	0.31%
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.60%	1.51%	1.69%	1.76%	1.19%

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Noninterest Income

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

	2012	2011	2010	2012 compared to 2011 $ Change	2012 compared to 2011 % Change
			(dollars in thousands)		
Noninterest Income:					
Trust income	$ 6,206	$ 6,498	$ 5,897	$ (292)	(4)%
Service charges on deposit accounts	14,743	14,775	16,968	(32)	(0)
Insurance and retail brokerage commissions	6,272	6,376	6,369	(104)	(2)
Income from bank owned life insurance	5,850	5,596	5,331	254	5
Card related interchange income	13,199	11,968	10,459	1,231	10
Other income	13,610	12,803	10,016	807	6
Subtotal	59,880	58,016	55,040	1,864	3
Net impairment losses	0	0	(9,193)	0	0
Net securities gains	192	2,185	2,422	(1,993)	(91)
Gain on sale of assets	4,607	4,155	824	452	11
Derivatives mark to market	755	(6,687)	141	7,442	(111)
Total noninterest income	$ 65,434	$ 57,669	$ 49,234	$ 7,765	13%

Noninterest income, excluding gains and losses on sales, impairment losses on assets and derivatives mark to market increased $1.9 million, or 3%, in 2012. The most significant changes included increases in card related interchange income and other income. The increase in card related interchange income can be attributed to both growth in the number deposit customers as well as continued increases in electronic payments by our customers. The increase in other income is primarily attributable to a $1.9 million termination fee related to the dissolution of a mortgage banking joint venture with another financial institution. As a result, the Company is exploring other strategic options related to the origination of residential mortgages. Also contributing to the increase in other income are fees earned on interest rate swaps. The fees earned on these swaps are based on the notional value of the initiated contracts. In comparison, 14 swaps with a notional value of $117.2 million were entered into during the year-ended December 31, 2012 and provided income of $1.3 million, while 9 swaps with a notional value of $44.9 million were entered into during the same period in 2011, providing income of $0.6 million. Offsetting these increases in other income was a decrease of $0.9 million in letter of credit fees.

Total noninterest income increased $7.8 million or 13%. The most notable change in this total is a $7.4 million increase in the mark-to-market adjustment recognized on derivatives. This increase is primarily the result of $0.8 million of income recognized in relation to the mark-to-market adjustment on interest rate derivatives during 2012 while a $6.7 million decline in income was recognized during the same period in 2011. The 2011decline in income was the result of an adverse mark-to-market adjustment related to credit deterioration for one commercial relationship. The 2012 income is a result of changes in the credit default curves over time as well as improvement in the counterparty credit risk related to one interest rate swap.

The gain on sale of assets for the year 2012 totaled $4.6 million, of which $2.9 million related to the sale of three loans transferred to held for sale in the fourth quarter of 2011. The sale of these loans were completed in the first and second quarters of 2012. For the year 2011, the gain on sale of assets included a $1.1 million gain on the sale of a private equity investment and $2.4 million in gains related to the sale of other real estate owned.

Comparing the year 2012 to the year 2011, net securities gains decreased $2.0 million as the result of a $1.5 million gain recognized in 2011 from the sale of an equity security.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Noninterest Expense

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

	2012	2011	2010	2012 compared to 2011 $ Change	% Change
			(dollars in thousands)		
Noninterest Expense:					
Salaries and employee benefits	$ 86,069	$ 84,669	$ 84,988	$ 1,400	2%
Net occupancy expense	13,255	14,069	14,271	(814)	(6)
Furniture and equipment expense	12,460	12,517	12,568	(57)	(0)
Data processing expense	7,054	6,027	5,671	1,027	17
Pennsylvania shares tax expense	5,706	5,480	5,455	226	4
Intangible amortization	1,467	1,534	2,031	(67)	(4)
Collection and repossession expense	5,756	7,583	4,430	(1,827)	(24)
Other professional fees and services	4,329	5,297	4,131	(968)	(18)
FDIC insurance	5,032	5,490	7,948	(458)	(8)
Other operating expenses	24,318	23,953	26,437	365	2
Subtotal	165,446	166,619	167,930	(1,173)	(1)
Loss on sale or write-down of assets	7,394	9,428	2,715	(2,034)	(22)
Operational losses	4,367	779	581	3,588	461
Total noninterest expense	$ 177,207	$ 176,826	$ 171,226	$ 381	0%

Total noninterest expense remained relatively consistent for the year 2012 in comparison to the year 2011. However, several categories reflected large variances in the level of expense.

During the third quarter of 2012, the Company experienced a $3.5 million charge in connection with fraudulent wire transfers involving the breach of a commercial client s computer system to gain access to our online banking system. However, there was no breach to our systems. The full amount of the loss has been recognized and an insurance claim, with up to a $0.5 million deductible, has been filed. The outcome of that claim has not been determined, therefore a receivable has not been recognized. In addition, various recovery strategies are currently being pursued.

Salary and employee benefits expense increased compared to the same period of 2011 as a result of normal merit increases, the hiring of additional business development professionals and higher levels of employee incentive payments related to increased loan and deposit volumes. New loans originated during the year-ended December 31, 2012 totaled $1.3 billion compared to $1.0 billion in the same period of 2011. The number of full-time equivalent employees decreased 47 positions from 1,442 at December 31, 2011 to 1,395 at December 31, 2012.

Increases in data processing expense can be attributed primarily to increased costs related to the higher level of customer debit card usage as electronic transactions continue to increase year over year.

Collection and repossession expense decreased in 2012 compared to 2011 primarily due to the resolution of certain problem credits.

Although the loss on sale or write-down of assets decreased for the year 2012, it remains high compared to historical levels. The expense for the year 2012 is primarily related to write-downs taken on three OREO properties upon receipt of updated appraisals.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2012 Compared to 2011 (Continued)

Income Tax

The provision for income taxes was $14.7 million in 2012 compared to a benefit of $0.4 million in 2011 mostly due to a 280% or $41.7 million increase in pretax income.

The effective tax rate was 26% for the tax expense in 2012 and 3% for the tax benefit in 2011. 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 2012 and a tax benefit for 2011.

Financial Condition

First Commonwealth s total assets increased by $154.3 million in 2012. Loans increased $161.1 million, or 4%, and investments increased $28.5 million, or 2%. 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 for 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.

In 2005, First Commonwealth implemented a strategic decision 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 is projected to decline approximately $60 million annually, consistent with 2012, through regularly scheduled repayments and payoffs. In 2012, the mortgage banking joint venture was terminated and other strategic alternatives for the offering of mortgage related products are currently being evaluated.

During 2012, approximately $574.8 million in investments 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, $354.8 million in asset-backed securities and $250.6 million in agency securities were purchased in 2012 to help increase earnings from the portfolio with a reduced risk profile.

First Commonwealth s total liabilities increased $166.8 million, or 3%, in 2012. Deposit growth of $53.2 million, or 1%, was augmented by an increase in short-term borrowings of $43.5 million, or 14 % and an increase in long-term debt of $72.8 million, or 72%.

We periodically utilize short-term and long-term borrowings to fund the origination of new loans as well as the purchase of investments. Long-term borrowings were obtained in 2012 as an asset / liability management strategy to mitigate the risk of higher rates in the future and to take advantage of attractive interest rates in the wholesale funding market. 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.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Loan Portfolio

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

	2012		2011		2010		2009		2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(dollars in thousands)					
Commercial, financial, agricultural and other	$ 1,019,822	24%	$ 996,739	25%	$ 913,814	22%	$ 1,127,320	25%	$ 1,146,411	26%
Real estate construction	87,438	2	76,564	2	261,482	6	428,744	9	528,841	12
Residential real estate	1,241,565	30	1,137,059	28	1,127,273	27	1,202,386	26	1,199,819	27
Commercial real estate	1,273,661	30	1,267,432	31	1,354,074	32	1,320,715	28	1,047,506	24
Loans to individuals	582,218	14	565,849	14	561,440	13	557,336	12	495,800	11
Total loans and leases net of unearned income	$ 4,204,704	100%	$ 4,043,643	100%	$ 4,218,083	100%	$ 4,636,501	100%	$ 4,418,377	100%

The loan portfolio totaled $4.2 billion as of December 31, 2012, reflecting growth of $161.1 million or 4% compared to December 31, 2011. Loan growth was experienced in all categories, with the majority being recognized in the residential real estate portfolio as a result of a successful promotion related to 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, while loans to individuals increased as a result of growth in indirect auto lending.

The majority of our loan portfolio is with borrowers located in Pennsylvania. As of December 31, 2012 and 2011, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

As of December 31, 2012, criticized loans or loans designated OAEM, substandard, impaired or doubtful decreased $3.5 million, or 1%, from December 31, 2011. Criticized loans totaled $288.5 million at December 31, 2012 and represented 7% of the total loan portfolio. Additionally, delinquency on accruing loans decreased $13.7 million, or 39%, at December 31, 2012 compared to December 31, 2011. Of this amount, $6.7 million relates to delinquent consumer loans which were moved to nonaccrual status while the remainder of the decrease is the result of charge-offs, paydowns or payoffs of the loan balance. As of December 31, 2012, nonaccrual loans increased $16.0 million, or 2%, compared to December 31, 2011 partially due to the addition of the $6.7 million of consumer loans moved to nonaccrual status. Total gross charge-offs for the year ended December 31, 2012 were $17.0 million.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Loan Portfolio (Continued)

Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans and before unearned income at December 31, 2012 were as follows:

	Within One Year	One to 5 Years	After 5 Years	Total
		(dollars in thousands)		
Commercial, financial, agricultural and other	$ 40,765	$ 663,575	$ 210,718	$ 915,058
Real estate construction	10,308	51,340	25,790	87,438
Commercial real estate	148,222	425,608	699,831	1,273,661
Other	8,959	23,431	72,374	104,764
Totals	$ 208,254	$ 1,163,954	$ 1,008,713	$ 2,380,921
Loans at fixed interest rates		$ 261,926	$ 184,074	
Loans at variable interest rates		902,028	824,639	
Totals		$ 1,163,954	$ 1,008,713	

(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 $103.7 million to any one borrower or closely related group of borrowers, but has established lower thresholds for credit risk management.

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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Nonperforming Loans (Continued)

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:

	2012	2011	2010	2009	2008
			(dollars in thousands)		
Nonperforming Loans:					
Loans on nonaccrual basis	$ 43,539	$ 33,635	$ 84,741	$ 147,937	$ 55,922
Loans held for sale on nonaccrual basis	0	13,412	0	0	0
Troubled debt restructured loans on nonaccrual basis	50,979	44,841	31,410	0	0
Troubled debt restructured loans on accrual basis	13,037	20,276	1,336	619	132
Total nonperforming loans	$ 107,555	$ 112,164	$ 117,487	$ 148,556	$ 56,054
Loans past due in excess of 90 days and still accruing	$ 2,447	$ 11,015	$ 13,203	$ 15,154	$ 16,189
Other real estate owned	$ 11,262	$ 30,035	$ 24,700	$ 24,287	$ 3,262
Loans outstanding at end of period	$ 4,204,704	$ 4,057,055	$ 4,218,083	$ 4,636,501	$ 4,418,377
Average loans outstanding	$ 4,165,292	$ 4,061,822	$ 4,467,338	$ 4,557,227	$ 4,084,506
Nonperforming loans as a percentage of total loans	2.56%	2.76%	2.79%	3.20%	1.27%
Provision for credit losses	$ 20,544	$ 55,816	$ 61,552	$ 100,569	$ 23,095
Allowance for credit losses	$ 67,187	$ 61,234	$ 71,229	$ 81,639	$ 52,759
Net charge-offs	$ 14,591	$ 65,811	$ 71,962	$ 71,689	$ 12,732
Net charge-offs as a percentage of average loans outstanding	0.35%	1.62%	1.61%	1.57%	0.31%
Provision for credit losses as a percentage of net charge-offs	140.80%	84.81%	85.53%	140.29%	181.39%
Allowance for credit losses as a percentage of end-of-period loans outstanding (a)	1.60%	1.51%	1.69%	1.76%	1.19%
Allowance for credit losses as a percentage of nonperforming loans (a)	62.47%	62.01%	60.63%	54.96%	94.12%
Gross income that would have been recorded at original rates	$ 15,036	$ 14,872	$ 13,142	$ 7,645	$ 6,273
Interest that was reflected in income	369	1,393	30	13	9
Net reduction to interest income due to nonaccrual	$ 14,667	$ 13,479	$ 13,112	$ 7,632	$ 6,264

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

Nonperforming loans decreased $4.6 million to $107.6 million at December 31, 2012 compared to $112.2 million at December 31, 2011. The nonperforming loans as a percentage of total loans decreased to 2.6% from 2.8% at December 31, 2012 compared to December 31, 2011. Other real estate owned totaled $11.3 million at December 31, 2012, a decrease of $18.7 million compared to the $30.0 million balance at December 31, 2011. The most significant change in OREO during 2012 includes $7.0 million in write-downs as a result of updated

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Nonperforming Loans (Continued)

appraisals on the foreclosed properties and $6.5 million in proceeds received from the sale of a western Pennsylvania office complex. The most significant addition to OREO during 2012 was a $1.2 million parcel of land.

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 $7.2 million decrease in accruing TDR s during 2012 is primarily the result of an $11.3 million payoff of a loan to a waste management company in January 2012. Offsetting this decrease are new accruing TDR s including a $3.4 million loan to a gas well servicing operation and a $3.2 million commercial real estate loan. For additional information on TDR s please refer to Note 12 Loans and Allowance for Credit Losses.

Net credit losses were $14.6 million in 2012 compared to $65.8 million for the year 2011. The most significant credit losses recognized during the year were a $2.2 million partial charge-off of a construction loan for a Florida condominium project and a $1.2 million partial charge-off of a commercial borrower in the shallow gas well business. Additional detail on credit risk is included in Management s Discussion and Analysis of Financial Condition and Results of Operations under Credit Risk on page 47.

Provision for credit losses as a percentage of net charge-offs increased from 84.81% for the year ended December 31, 2011 to 140.80% for the year ended December 31, 2012, due to the decline in the amount of charge-offs recognized year over year.

Nonperforming Securities

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

	2012	2011	2010	2009	2008
			(dollars in thousands)		
Nonperforming Securities:					
Nonaccrual securities at market value	$ 0	$ 0	$ 15,823	$ 3,258	$ 0

As of December 31, 2012 and 2011, respectively, none of the pooled trust preferred collateralized debt obligations were considered to be nonperforming securities. 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.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Allowance for Credit Losses

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

	2012		2011		2010		2009		2008	
	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)	Allowance Amount	% (a)
					(dollars in thousands)					
Commercial, financial, agricultural and other	$ 19,852	24%	$ 18,200	25%	$ 21,700	22%	$ 31,369	25%	$ 17,558	26%
Real estate construction	8,928	2	6,756	2	18,002	6	18,224	9	12,961	12
Residential real estate	5,908	30	8,237	28	5,454	27	5,847	26	4,347	27
Commerical real estate	22,441	30	18,961	31	16,913	32	17,526	28	9,424	24
Loans to individuals	4,132	14	4,244	14	4,215	13	4,731	12	4,195	11
Unallocated	5,926	N/A	4,836	N/A	4,945	N/A	3,942	N/A	4,274	N/A
Total	$ 67,187		$ 61,234		$ 71,229		$ 81,639		$ 52,759	
Allowance for credit losses as percentage of end-of-period loans outstanding	1.60%		1.51%		1.69%		1.76%		1.19%	

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

The allowance for credit losses increased $6.0 million from December 31, 2011 to December 31, 2012 and the allowance for credit losses as a percentage of end-of-period loans outstanding was 1.60% at December 31, 2012 compared to 1.51% at December 31, 2011. The majority of the 2012 change in the allowance for credit losses, or $4.4 million of the total $6.0 million change, can be attributed to $5.3 million in specific reserves established for two commercial real estate loans. The allowance for credit losses includes both a general reserve for performing loans and specific reserves for nonperforming loans. Comparing December 31, 2012 to December 31, 2011, the general reserve for performing loans decreased from 1.21% to 1.19% of total performing loans. Specific reserves increased from 13.4% of nonperforming loans at December 31, 2011 to 16.5% of nonperforming loans at December 31, 2012. The increase in specific reserves held is a direct result of the previously mentioned commercial real estate loans as well as $4.9 million in specific reserves established for three commercial, financial, agricultural and other loans. The allowance for credit losses as a percentage of nonperforming loans was 62% at both December 31, 2012 and 2011.

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

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Allowance for Credit Losses (Continued)

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 21 Fair Values of Assets and Liabilities, $24.8 million of available for sale securities at December 31, 2012, 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:

	2012	2011	2010
		(dollars in thousands)	
Obligations of U.S. Government Agencies:			
Mortgage-Backed Securities Residential	$ 27,883	$ 32,139	$ 36,719
Obligations of U.S. Government-Sponsored Enterprises:			
Mortgage-Backed Securities Residential	839,102	771,196	618,454
Mortgage-Backed Securities Commercial	148	193	233
Other Government-Sponsored Enterprises	241,970	267,807	184,531
Obligations of States and Political Subdivisions	82	444	47,175
Corporate Securities	6,703	11,811	21,226
Pooled Trust Preferred Collateralized Debt Obligations	51,866	54,762	58,780
Total Debt Securities	1,167,754	1,138,352	967,118
Equities	1,859	1,860	5,137
Total Securities Available for Sale	$ 1,169,613	$ 1,140,212	$ 972,255

As of December 31, 2012, securities available for sale had a fair value of $1.2 billion. Gross unrealized gains were $30.7 million and gross unrealized losses were $29.0 million.

The following is a schedule of the contractual maturity distribution of securities available for sale at December 31, 2012.

	U.S. Government Agencies and Corporations	States and Political Subdivisions	Other Securities	Total Amortized Cost (a)	Weighted Average Yield*
			(dollars in thousands)		
Within 1 year	$ 3,397	$ 0	$ 0	$ 3,397	4.11%
After 1 but within 5 years	255,804	82	0	255,886	1.03
After 5 but within 10 years	95,716	0	0	95,716	4.16
After 10 years	754,186	0	58,569	812,755	2.78

Total	$ 1,109,103	$ 82	$ 58,569	$ 1,167,754	2.51%

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

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Investment Portfolio (Continued)

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 $29.4 million, or 2.6%, at December 31, 2012 compared to December 31, 2011. All categories of investments decreased, except for Obligations of U.S. Government sponsored enterprises which increased $42.0 million, or 4%. 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 $51.9 million in pooled trust preferred collateralized debt obligations at December 31, 2012. 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 Securities Available for Sale, Note 9 Securities Held to Maturity, Note 10 Other Investments, Note 11 Impairment of Investment Securities, and Note 21 Fair Values of Assets and Liabilities for additional information related to the investment portfolio.

Deposits

Total deposits increased $53.2 million, or 1%, in 2012, primarily due to an increase in lower cost transaction and savings deposits of $218.1 million, offset by a decrease in time deposits of $164.9 million. As the interest rate paid on deposits remains at historically low levels, customers continue to migrate towards shorter term, more liquid investments.

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:

	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
			(dollars in thousands)			
3 months or less	$ 103,102	32%	$ 76,356	24%	$ 94,957	24%
Over 3 months through 6 months	58,680	18	43,299	13	65,560	17
Over 6 months through 12 months	31,863	10	50,296	16	60,658	16
Over 12 months	128,798	40	151,213	47	165,576	43
Total	$ 322,443	100%	$ 321,164	100%	$ 386,751	100%

Short-Term Borrowings and Long-Term Debt

Short-term borrowings increased $43.5 million, or 14%, from $312.8 million as of December 31, 2011 to $356.2 million at December 31, 2012. Long-term debt increased $72.8 million, or 35%, from $207.4 million at December 31, 2011 to $280.2 million at December 31, 2012. The increase 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. For additional information concerning our short-term borrowings, subordinated debentures and other long-term debt, please refer to Note 18 Short-term Borrowings, Note 19 Subordinated Debentures and Note 20 Other Long-term Debt of the Consolidated Financial Statements.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Financial Condition (Continued)

Contractual Obligations and Off-Balance Sheet Arrangements

The table below sets forth our contractual obligations to make future payments as of December 31, 2012. 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	20	$ 29,968	$ 137,822	$ 792	$ 5,734	$ 174,316
Subordinated debentures	19	0	0	0	105,750	105,750
Operating leases	15	3,548	6,163	5,339	17,070	32,120
Total contractual obligations		$ 33,516	$ 143,985	$ 6,131	$ 128,554	$ 312,186

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 17 Interest-Bearing Deposits of the Consolidated Financial Statements.

In addition, see Note 14 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, 2012. 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, 2012, a reserve for probable losses of $2.4 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

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Liquidity (Continued)

market mutual funds. Deposits increased $53.2 million, or 1%, during 2012, and comprised 87% of total liabilities at December 31, 2012, as compared to 89% at December 31, 2011. Proceeds from the maturity and redemption of investment securities totaled $574.8 million during 2012 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, 2012 our borrowing capacity at the Federal Reserve related to this program was $795.2 million and there were no amounts outstanding. Additionally, as of December 31, 2012, our maximum borrowing capacity at the Federal Home Loan Bank of Pittsburgh was $1.4 billion and as of that date amounts used against this capacity included $352.4 million in outstanding borrowings and $26.0 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, 2012, our maximum borrowing capacity under this program was $892.8 million and as of that date there was $70.2 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 December 31, 2012, our outstanding certificates of deposits from this program have an average weighted rate of 0.31% and an average original term of 95 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, 2012. As of December 31, 2012, 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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Market Risk (Continued)

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 0.76 at both December 31, 2012 and 2011, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

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.

Following is the gap analysis as of 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	0	0	4,258	0	0
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	0	0	2,641,953	0	0
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%

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Market Risk (Continued)

	2011					
	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	$ 1,859,623	$ 156,447	$ 287,873	$ 2,303,943	$ 1,486,729	$ 174,495
Investments	125,112	107,723	205,335	438,170	418,413	320,739
Other interest-earning assets	3,511	0	0	3,511	0	0
Total interest-sensitive assets (ISA)	1,988,246	264,170	493,208	2,745,624	1,905,142	495,234
Certificates of deposit	154,218	192,154	323,085	669,457	517,572	10,531
Other deposits	2,526,747	0	0	2,526,747	0	0
Borrowings	386,683	25,147	299	412,129	68,334	39,728
Total interest-sensitive liabilities (ISL)	3,067,648	217,301	323,384	3,608,333	585,906	50,259
Gap	$ (1,079,402)	$ 46,869	$ 169,824	$ (862,709)	$ 1,319,236	$ 444,975
ISA/ISL	0.65	1.22	1.53	0.76	3.25	9.85
Gap/Total assets	18.48%	0.80%	2.91%	14.77%	22.59%	7.62%

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, 2012	$ (8,204)	$ (4,767)	$ 459	$ 2,153
December 31, 2011	(7,787)	(3,997)	704	2,324

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 2012 and 2011, the cost of our interest-bearing liabilities averaged 0.70% and 0.99%, respectively and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 4.18% and 4.61%, 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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses.

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 $2.4 million at December 31, 2012, 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 2012, 60 loans totaling $21.9 million were identified as troubled debt restructurings resulting in specific reserves of $4.9 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 $67.2 million at December 31, 2012 or 1.60% of loans outstanding compared to $61.2 million or 1.51% of loans outstanding at December 31, 2011. The increase in the 2012 ratio compared to the 2011 ratio can be primarily attributed to a $4.5 million increase in specific reserves on nonperforming loans. As of December 31, 2012, several credit measures showed improvement compared to December 31, 2011. The level of criticized loans decreased $3.5 million from $292.0 million at December 31, 2011 to $288.5 million at December 31, 2012 and delinquency on accruing loans for the same period declined $13.7 million, or 39%.

The allowance for credit losses as a percentage of nonperforming loans was 62% at December 31, 2012 and 2011. The allowance for credit losses includes specific allocations of $17.8 million related to nonperforming loans covering 17% of the total nonperforming balance at December 31, 2012 and specific allocations of $13.2 million covering 13% of the total nonperforming balance at December 31, 2011. 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.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Credit Risk (Continued)

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, 2012.

The following table provides information on net charge-offs and nonperforming loans by loan category:

	For the Year Ended December 31, 2012			As of December 31, 2012		
	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	$ 4,764	32.65%	0.12%	$ 34,612	32.18%	0.82%
Real estate construction	3,019	20.69	0.07	11,247	10.46	0.27
Residential real estate	3,406	23.35	0.08	10,623	9.87	0.25
Commerical real estate	441	3.02	0.01	50,817	47.25	1.21
Loans to individuals	2,961	20.29	0.07	256	0.24	0.01
Total loans, net of unearned income	$ 14,591	100.00%	0.35%	$ 107,555	100.00%	2.56%

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, 2012. See discussions related to the provision for credit losses and loans for more information.

Results of Operations 2011 Compared to 2010

Summary of 2011 Results

Net income for 2011 was $15.3 million, or $0.15 per diluted share, as compared to a net income of $23.0 million, or $0.25 per diluted share, in 2010. The decline in performance in 2011 was primarily the result of a $16.9 million decrease in net interest income, an increase of $6.7 million related to loss on sale or write-down of assets, and a $6.8 million increase in credit risk recognized on interest rate swaps. Partially offsetting the income declines are a $5.7 million decrease in provision for credit losses in 2011, a decrease of $9.2 million in other-than-temporary impairment losses related to our pooled trust preferred collateralized debt obligation portfolio, a $3.3 million increase in gain on the sale of assets and a $2.5 million increase in income from other real estate owned.

Our return on average equity was 2.0% and return on average assets was 0.27% for 2011, compared to 3.33% and 0.37%, respectively, for 2010.

Average diluted shares for the year 2011 were 12% greater than the comparable period in 2010 primarily due to the issuance of 18.5 million shares of common stock in connection with a capital raise that was completed in August 2010.

Net interest income, on a fully taxable equivalent basis, for 2011 was $20.6 million, or 10% lower than 2010, primarily due to a $427.1 million, or 8%, decline in average interest earning assets and an 8 basis point decrease in the net interest margin. Positively affecting net interest income in 2011 was a $121.2 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

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Results of Operations 2011 Compared to 2010 (Continued)

Summary of 2011 Results (Continued)

basis was 3.80% in 2011 compared to 3.88% in 2010. The relatively stable net interest margin can be attributed to a more favorable deposit mix, lower costing deposits, reduced balance sheet leveraging and disciplined loan pricing.

Interest and fees on loans, on a fully taxable equivalent basis, decreased $28.6 million of which $21.0 million is attributable to the previously mentioned decline in average balances and $7.6 million is the result of the yield on loans decreasing 19 basis points from 5.18% to 4.99%. Interest income on investment securities, on a fully taxable equivalent basis, decreased $11.9 million from 2010 of which $3.5 million is attributable to the previously mentioned decline in balances and $8.4 million is due to a 108 basis point decrease in yield from 4.34% to 3.26%. Contributing to the investment yield decline was the planned reduction in obligations of state and political subdivisions which had higher yields relative to the remainder of the portfolio.

Interest expense on deposits decreased $16.3 million, of which $11.0 million is attributable to a decline in rates paid and $5.3 million is due to a change in average balances. The cost of interest-bearing deposits decreased 37 basis points as a result of lower interest rates and improved deposit mix changes. Total average interest-bearing deposits decreased $190.3 million, or 5%, primarily due to a decrease of $252.8 million, or 16%, in higher costing average time deposits, offset by an increase of $62.5 million, or 3%, in average interest-bearing demand and savings deposits. Average noninterest-bearing deposits increased $61.1 million, or 9.3%, in 2011.

Interest expense on short-term borrowings declined $1.2 million primarily due to a $305.2 million decline in average balances while interest expense on long-term debt declined $2.4 million; $2.2 million as a result of the $52.8 million decrease in average balances and $0.2 million due to a 9 basis point decrease in rate.

Net interest margin, on a fully taxable equivalent basis, for the year 2011 declined 8 basis points to 3.80% from 3.88%. The relatively stable net interest margin can be attributed to a more favorable deposit mix, lower costing deposits, reduced balance sheet leveraging and disciplined loan pricing.

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 the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 under the framework in Internal Control-Integrated Framework, management concluded that internal control over financial reporting was effective as of December 31, 2012. The effectiveness of First Commonwealth s internal control over financial reporting as of December 31, 2012 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 13, 2013

/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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ITEM 8. Financial Statements and Supplementary Data (Continued)

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 internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework 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, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2012 and 2011, 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, 2012, and our report dated March 13, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Pittsburgh, Pennsylvania

March 13, 2013

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ITEM 8. Financial Statements and Supplementary Data (Continued)

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, 2012 and 2011, 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, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, 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 13, 2013 expressed an unqualified opinion on the effectiveness of First Commonwealth Financial Corporation s internal control over financial reporting.

/s/ KPMG LLP

Pittsburgh, Pennsylvania

March 13, 2013

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ITEM 8. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2012	2011
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$ 98,724	$ 74,967
Interest-bearing bank deposits	4,258	3,511
Securities available for sale, at fair value	1,171,303	1,142,776
Other investments	28,228	39,796
Loans held for sale	0	13,412
Loans:		
Portfolio loans	4,204,704	4,043,643
Allowance for credit losses	(67,187)	(61,234)
Net loans	4,137,517	3,982,409
Premises and equipment, net	68,970	66,755
Other real estate owned	11,262	30,035
Goodwill	159,956	159,956
Amortizing intangibles, net	2,375	3,843
Bank owned life insurance	170,925	167,576
Other assets	141,872	156,086
Total assets	$ 5,995,390	$ 5,841,122
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$ 883,269	$ 780,377
Interest-bearing	3,674,612	3,724,307
Total deposits	4,557,881	4,504,684
Short-term borrowings	356,227	312,777
Subordinated debentures	105,750	105,750
Other long-term debt	174,471	101,664
Total long-term debt	280,221	207,414
Other liabilities	55,054	57,704
Total liabilities	5,249,383	5,082,579
Shareholders Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, $1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued as of December 31, 2012 and 2011; and 99,629,494 shares and 104,916,994 shares outstanding at December 31, 2012 and 2011, respectively	105,563	105,563
Additional paid-in capital	365,354	365,868
Retained earnings	315,608	294,056
Accumulated other comprehensive income, net	1,259	2,001
Treasury stock (5,933,961 and 646,461 shares at December 31, 2012 and 2011, respectively)	(41,777)	(7,345)

Unearned ESOP shares	0	(1,600)
Total shareholders equity	746,007	758,543
Total liabilities and shareholders equity	$ 5,995,390	$ 5,841,122

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

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ITEM 8. Financial Statements and Supplementary Data (Continued)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands, except share data)		
Interest Income			
Interest and fees on loans	$ 187,258	$ 197,456	$ 225,062
Interest and dividends on investments:			
Taxable interest	31,695	33,763	37,915
Interest exempt from federal income taxes	12	213	5,216
Dividends	104	49	73
Interest on bank deposits	6	64	94
Total interest income	219,075	231,545	268,360
Interest Expense			
Interest on deposits	21,454	33,496	49,845
Interest on short-term borrowings	1,070	728	1,948
Interest on subordinated debentures	5,684	5,568	5,593
Interest on other long-term debt	1,938	1,886	4,213
Total interest on long-term debt	7,622	7,454	9,806
Total interest expense	30,146	41,678	61,599
Net Interest Income	188,929	189,867	206,761
Provision for credit losses	20,544	55,816	61,552
Net Interest Income after Provision for Credit Losses	168,385	134,051	145,209
Noninterest Income			
Changes in fair value on impaired securities	2,193	(425)	(2,560)
Noncredit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)	(2,193)	425	(6,633)
Net impairment losses	0	0	(9,193)
Net securities gains	192	2,185	2,422
Trust income	6,206	6,498	5,897
Service charges on deposit accounts	14,743	14,775	16,968
Insurance and retail brokerage commissions	6,272	6,376	6,369
Income from bank owned life insurance	5,850	5,596	5,331
Gain on sale of assets	4,607	4,155	824
Card related interchange income	13,199	11,968	10,459
Derivative mark to market	755	(6,687)	141
Other income	13,610	12,803	10,016
Total noninterest income	65,434	57,669	49,234
Noninterest Expense			
Salaries and employee benefits	86,069	84,669	84,988
Net occupancy expense	13,255	14,069	14,271
Furniture and equipment expense	12,460	12,517	12,568
Data processing expense	7,054	6,027	5,671
Pennsylvania shares tax expense	5,706	5,480	5,455
Intangible amortization	1,467	1,534	2,031
Collection and repossession expense	5,756	7,583	4,430
Other professional fees and services	4,329	5,297	4,131

FDIC insurance	5,032	5,490	7,948
Loss on sale or write-down of assets	7,394	9,428	2,715