Education Realty Trust, Inc.
Form 8-K
October 27, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8 K

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

Date of report (Date of earliest event reported): October 27, 2014

Education Realty Trust, Inc.

(Exact Name of Registrant as Specified in Charter)

Maryland (State or Other Jurisdiction of Incorporation)	001-32417 (Commission File Number)	20-1352180 (IRS Employer Identification No.)

999 South Shady Grove Road, Suite 600 Memphis, Tennessee (Address of Principal Executive Offices)	38120 (Zip Code)

901-259-2500

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)) o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On October 27, 2014, Education Realty Trust, Inc. (the "Company") issued a press release announcing its results of operations for the nine months ended September 30, 2014 and made available updated supplemental information concerning the ownership, operations and portfolio of the Company. A copy of the press release and this supplemental information are furnished as Exhibits 99.1 and Exhibit 99.2, respectively, to this Current Report on Form 8-K.

This Current Report on Form 8-K and the exhibits attached hereto are being furnished by the Company pursuant to Item 2.02 and Item 7.01 of Form 8-K in satisfaction of the public disclosure requirements of Regulation FD and Item 2.02 of Form 8-K, insofar as they disclose historical information regarding the Company’s results of operations or financial condition for the three and nine months ended September 30, 2014.

In accordance with General Instructions B.2 and B.6 of Form 8-K, the information included in this Current Report on Form 8-K (including Exhibits 99.1 and 99.2 hereto) shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing made by the Company under the Exchange Act or the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 7.01. Regulation FD Disclosure.

The disclosure contained in Item 2.02 is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are being furnished with this Current Report on Form 8-K.

Exhibit No.	Description
99.1	Press Release dated October 27, 2014
99.2	Third Quarter 2014 Supplemental Financial Report

SIGNATURE

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

EDUCATION REALTY TRUST, INC.

Date: October 27, 2014	By:	/s/ Edwin B. Brewer, Jr.
		Edwin B. Brewer, Jr.
		Executive Vice President and Chief Financial Officer

INDEX TO EXHIBITS

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9,778

9,814

77,624

87,438

Residential real estate
6,597

2,357

730

9,283

18,967

1,222,598

1,241,565

Commercial real estate
3,339

1,389

195

46,023

50,946

1,222,715

1,273,661

Loans to individuals
3,140

934

1,219

176

5,469

576,749

582,218

Total
$
14,069

$
5,319

$
2,447

$
94,518

$
116,353

$
4,088,351

$
4,204,704

Nonaccrual Loans
The previous tables summarize nonaccrual loans by loan segment. The Company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, when part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. Generally, loans 90 days or more past due are placed on nonaccrual status, except for consumer loans which are placed in nonaccrual status at 150 days past due.
When a loan is placed on nonaccrual, the accrued unpaid interest receivable is reversed against interest income and all future payments received are applied as a reduction to the loan principal. Generally, the loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.
Impaired Loans
Management considers loans to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all loan categories. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, except when the sole source for repayment of the loan is the operation or liquidation of collateral. When the loan is collateral dependent, the appraised value less estimated cost to sell is utilized. If management determines the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an allowance estimate or a charge-off to the allowance. Troubled debt restructured loans on accrual status are considered to be impaired loans.
When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonperforming loans decreased $29.3 million during the three months ended March 31, 2013. Contributing to this decrease was the sale of $17.2 million of loans related to a real estate developer in eastern Pennsylvania as well as a $2.5 million commercial real estate loan in Nevada. Also, a $3.8 million hotel resort syndication loan in the state of Washington was retruned to accrual status during the first quarter of 2013. Additionally, $5.3 million in charge-offs were recognized on two commercial real estate loans during the quarter, including $2.8 million for a loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy and $2.5 million for a western Pennsylvania student housing project which is in the foreclosure process.

A total of $2.7 million of loans were moved into nonaccrual status during the three-months ended March 31, 2013. Included in this total was the movement to nonaccrual status of $1.1 million in consumer loans which were 150 days or more past due. Beginning in the third quarter of 2012, consumer loans are moved to nonaccrual status once they reach 150 days past due, however, in prior periods, these loans were not placed in nonaccrual status if they were well secured and in the process of collection.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
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The specific allowance for nonperforming loans decreased by $5.1 million at March 31, 2013 compared to December 31, 2012, primarily due to charge-offs of amounts reserved for in prior periods. Unfunded commitments related to nonperforming loans were $1.2 million at March 31, 2013 and after consideration of available collateral related to these commitments, an off balance sheet reserve of $0.2 million was established.

There were no loans held for sale at March 31, 2013 and December 31, 2012; however, sales of loans during the three-months ended March 31, 2013 and 2012 resulted in gains of $0.1 million and $1.8 million, respectively.

Significant nonaccrual loans as of March 31, 2013, include the following;

- $18.7 million, the remaining portion of a $44.1 million unsecured loan to a western Pennsylvania real estate developer. This loan was originated in 2004 and was placed in nonaccrual status in the fourth quarter of 2009. A settlement plan with the borrower and three other lenders was reached in the fourth quarter of 2010 and resulted in an $8.0 million principal payment and a $15.4 million partial charge-off.
- $3.5 million commercial real estate loan to an in-patient facility in western Pennsylvania. This loan was originated in 2008 and placed in nonaccrual status in September 2012. Charge-offs of $2.8 million have been recorded on this loan. The most recent appraisal for the real estate collateral was completed in the fourth quarter of 2012.
- $3.5 million, the remaining portion of a $20.8 million construction loan for a Florida condominium project. This loan was originated in 2007 and placed in nonaccrual status in the second quarter of 2009. Charge-offs of $17.3 million have been recorded on this loan. The most recent appraisal for the real estate collateral was completed in the second quarter of 2012.
- $3.2 million, real estate secured loan to a western Pennsylvania nonprofit corporation. This loan was originated in 2008 and placed in nonaccrual status in the second quarter of 2012. The most recent appraisals for the various real estate collateral were completed in the fourth quarter of 2012 and the first quarter of 2013.

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

	March 31, 2013			December 31, 2012		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(dollars in thousands)					
With no related allowance recorded:						
Commercial, financial, agricultural and other	$8,649	$9,601	$—	$8,080	$8,983	$—
Real estate construction	6,122	27,005	—	8,491	35,555	—
Residential real estate	8,666	9,269	—	7,928	8,401	—
Commercial real estate	16,711	23,250	—	33,259	35,401	—
Loans to individuals	240	247	—	256	256	—
Subtotal	40,388	69,372	—	58,014	88,596	—
With an allowance recorded:						
Commercial, financial, agricultural and other	25,702	26,655	9,846	26,532	27,412	10,331
Real estate construction	2,860	3,169	503	2,756	3,087	300
Residential real estate	2,663	2,666	1,091	2,695	2,696	780

Commercial real estate	6,668	7,263	1,249	17,558	17,896	6,367
Loans to individuals	—	—	—	—	—	—
Subtotal	37,893	39,753	12,689	49,541	51,091	17,778
Total	$78,281	$109,125	$12,689	$107,555	$139,687	$17,778

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	For the Three-Months Ended March 31,			
	2013		2012	
	Average recorded investment	Interest Income Recognized	Average recorded investment	Interest Income Recognized
	(dollars in thousands)			
With no related allowance recorded:				
Commercial, financial, agricultural and other	$8,592	$51	$3,258	$18
Real estate construction	7,877	—	3,646	—
Residential real estate	8,516	37	3,354	5
Commercial real estate	33,978	11	24,275	23
Loans to individuals	247	1	—	—
Subtotal	59,210	100	34,533	46
With an allowance recorded:				
Commercial, financial, agricultural and other	25,803	19	30,350	3
Real estate construction	2,685	13	10,432	—
Residential real estate	2,457	4	952	7
Commercial real estate	6,704	25	5,889	9
Loans to individuals	—	—	—	—
Subtotal	37,649	61	47,623	19
Total	$96,859	$161	$82,156	$65

Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources.
The following table provides detail as to the total troubled debt restructured loans and total commitments outstanding on troubled debt restructured loans:

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	$14,140	$13,037
Nonaccrual status	32,565	50,979
Total	$46,705	$64,016
Commitments		
Letters of credit	$—	$1,574
Unused lines of credit	1,083	—
Total	$1,083	$1,574

At March 31, 2013, troubled debt restructured loans decreased $17.3 million compared to December 31, 2012 and commitments related to troubled debt restructured loans decreased $0.5 million for the same period. These decreases are primarily a result of the sale of a $17.2 million loan for a commercial real estate developer in eastern Pennsylvania.

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

	For the Three-Months Ended March 31, 2013						
		Type of Modification					
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)						
Commercial, financial, agricultural and other	2	$426	$—	$12	$ 438	$377	$—
Residential real estate	9	7	214	514	735	677	—
Commercial real estate	1	—	244	—	244	242	—
Loans to individuals	4	—	23	4	27	25	
Total	16	$433	$481	$530	$ 1,444	$1,321	$—

	For the Three-Months Ended March 31, 2012						
		Type of Modification					
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments	Total Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
	(dollars in thousands)						
Residential real estate	2	$—	$97	$—	$ 97	$53	$—

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this note. Loans defined as modified due to a change in rate include loans that were modified for a change in rate as well as a reamortization of the principal and an extension of the maturity. For the three-months ended March 31, 2013 and 2012, $0.5 million and $97 thousand, respectively, of total rate modifications represent loans with modifications to the rate as well as payment due to reamortization. For both 2013 and 2012 the changes in loan balances between the pre-modification balance and the post-modification balance are due to customer payments.

A troubled debt restructuring is considered to be in default when a restructured loan is 90 days or more past due. The following provides information related to restructured loans that were considered to default during the three-months ended March 31,:

	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment

	(dollars in thousands)			
Residential real estate	1	10	—	—
Commercial real estate	—	$—	2	$980
Loans to individuals	1	6	—	—
Total	2	$16	2	$980

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

	For the Three-Months Ended March 31, 2013						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$19,852	$8,928	$5,908	$22,441	$4,132	$5,926	$67,187
Charge-offs	(538)	(84)	(322)	(8,544)	(988)	—	(10,476)
Recoveries	128	12	723	97	94	—	1,054
Provision (credit)	833	(1,123)	(560)	4,476	901	(30)	4,497
Ending Balance	$20,275	$7,733	$5,749	$18,470	$4,139	$5,896	$62,262
Ending balance: individually evaluated for impaired	$9,846	$503	$1,091	$1,249	$—	$—	$12,689
Ending balance: collectively evaluated for impaired	10,429	7,230	4,658	17,221	4,139	5,896	49,573
Loans:							
Ending balance	1,057,663	70,461	1,255,515	1,243,676	591,495		4,218,810
Ending balance: individually evaluated for impaired	33,322	8,917	7,813	21,369	—		71,421
Ending balance: collectively evaluated for impaired	1,024,341	61,544	1,247,702	1,222,307	591,495		4,147,389

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	For the Three-Months Ended March 31, 2012						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	$18,200	$6,756	$8,237	$18,961	$4,244	$4,836	$61,234
Charge-offs	(1,914)	(190)	(1,712)	(235)	(941)	—	(4,992)
Recoveries	238	56	133	158	118	—	703
Provision (credit)	1,619	(195)	44	487	831	1,001	3,787
Ending Balance	$18,143	$6,427	$6,702	$19,371	$4,252	$5,837	$60,732
Ending balance: individually evaluated for impaired	$7,555	$2,891	$553	$921	$—	$—	$11,920
Ending balance: collectively evaluated for impaired	10,588	3,536	6,149	18,450	4,252	5,837	48,812
Loans:							
Ending balance	1,051,209	64,158	1,174,572	1,264,060	574,589		4,128,588
Ending balance: individually evaluated for impaired	31,599	13,800	3,217	28,874	—		77,490
Ending balance: collectively evaluated for impaired	1,019,610	50,358	1,171,355	1,235,186	574,589		4,051,098

Note 11 Income Taxes

At March 31, 2013 and December 31, 2012, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. If applicable, First Commonwealth will record interest and penalties as a component of noninterest expense. Federal and state tax years 2009 through 2012 were open for examination as of March 31, 2013.

Note 12 Fair Values of Assets and Liabilities

FASB ASC Topic 820, "Fair Value Measurements and Disclosures" requires disclosures for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). All non-financial assets are included either as a separate line item on the Condensed Consolidated Statements of Financial Condition or in the "Other assets" category of the Condensed Consolidated Statements of Financial Condition. Currently, First Commonwealth does not have any non-financial liabilities to disclose.

FASB ASC Topic 825, "Financial Instruments" permits entities to irrevocably elect to measure select financial instruments and certain other items at fair value. The unrealized gains and losses are required to be included in earnings each reporting period for the items that fair value measurement is elected. First Commonwealth has elected not to measure any existing financial instruments at fair value under FASB ASC Topic 825; however, in the future we may elect to adopt this guidance for select financial instruments.

In accordance with FASB ASC Topic 820, First Commonwealth groups financial assets and financial liabilities measured at fair value in three levels based on the principal markets in which the assets and liabilities are transacted and the observability of the data points used to determine fair value. These levels are:

• Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange (“NYSE”). Valuations are obtained from readily available pricing sources for market transactions involving identical assets

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or liabilities. Level 1 securities include equity holdings comprised of publicly traded bank stocks which were priced using quoted market prices.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained for identical or comparable assets or liabilities from alternative pricing sources with reasonable levels of price transparency. Level 2 includes Obligations of U.S. Government securities issued by Agencies and Sponsored Enterprises, Obligations of States and Political Subdivisions, certain corporate securities, FHLB stock, interest rate derivatives that include interest rate swaps and risk participation agreements, certain other real estate owned and certain impaired loans.

Level 2 investment securities are valued by a recognized third party pricing service using observable inputs. The model used by the pricing service varies by asset class and incorporates available market, trade and bid information as well as cash flow information when applicable. Because many fixed-income investment securities do not trade on a daily basis, the model uses available information such as benchmark yield curves, benchmarking of like investment securities, sector groupings and matrix pricing. The model will also use processes such as an option adjusted spread to assess the impact of interest rates and to develop prepayment estimates. Market inputs normally used in the pricing model include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

Management validates the market values provided by the third party service by having another recognized pricing service price 100% of the securities on an annual basis and a random sample of securities each quarter, monthly monitoring of variances from prior period pricing and, on a monthly basis, evaluating pricing changes compared to expectations based on changes in the financial markets.

Other investments are comprised of FHLB stock whose estimated fair value is based on its par value. Additional information on FHLB stock is provided in Note 8, “Other Investments.”

Interest rate derivatives are reported at an estimated fair value utilizing Level 2 inputs and are included in other assets and other liabilities and consist of interest rate swaps where there is no significant deterioration in the counterparties' (loan customers) credit risk since origination of the interest rate swap. First Commonwealth values its interest rate swap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the U.S. Dollar yield curve includes cash LIBOR rates from overnight to three months, Eurodollar futures contracts and swap rates from three years to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 13, “Derivatives.”

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

We also utilize this approach to estimate our own credit risk on derivative liability positions. In 2013, we have not realized any losses due to a counterparty's inability to pay any uncollateralized positions.

The estimated fair value for other real estate owned included in Level 2 is determined by either an independent market based appraisal less estimated costs to sell or an executed sales agreement.

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the valuation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The assets included in Level 3 are pooled trust preferred collateralized debt obligations, non-marketable equity investments, loans held for sale and certain interest rate derivatives, certain other real estate owned and certain impaired loans.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks, thrifts and bank holding companies in the U.S. There has been little or no active trading in these securities since 2009; therefore it was more appropriate to determine estimated fair value using a discounted cash flow analysis. Detail on our process for determining the appropriate cash flows for this analysis is provided in Note 9, “Impairment of Investment Securities.” The discount rate applied to the cash flows is determined by evaluating the current market yields for comparable corporate and

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structured credit products along with an evaluation of the risks associated with the cash flows of the comparable security. Due to the fact that there is no active market for the pooled trust preferred collateralized debt obligations, one key reference point is the market yield for the single issue trust preferred securities issued by banks and thrifts for which there is more activity than for the pooled securities. Adjustments are then made to reflect the credit and structural differences between these two security types.

Management validates the fair value of the pooled trust preferred collateralized debt obligations by monitoring the performance of the underlying collateral, discussing the discount rate, cash flow assumptions and general market trends with the specialized third party and confirming changes in the underlying collateral to the trustee reports. Management's monitoring of the underlying collateral includes deferrals of interest payments, payment defaults, cures of previously deferred interest payments, any regulatory filings or actions and general news related to the underlying collateral. Management also evaluates fair value changes compared to expectations based on changes in the interest rates used in determining the discount rate and general financial markets.

The estimated fair value of the non-marketable equity investments included in Level 3 is based on par value.

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

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

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

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

	Fair Value (dollars in thousands)	Valuation Technique	Unobservable Inputs	Range / (weighted average)
Pooled Trust Preferred Securities	$24,512	Discounted Cash Flow	Probability of default	0% -100% (21.44%)
			Prepayment rates	0% - 81.75% (9.60%)
			Discount rates	6.25% - 18%(a)
Equities	1,420	Par Value	N/A	N/A
Interest Rate Swap	—	Option model	Counterparty credit risk	8.56% - 10.31% (b)
Impaired Loans	734 (c)	Reserve study	Discount rate	10.00%
			Gas per MCF	$3.67 - $7.60 (d)
			Oil per BBL/d	$90.97 - $106.00 (d)
			NGL per gallon	$1.54 (d)
Other Real Estate Owned	215	Internal Valuation	N/A	N/A

(a) incorporates spread over risk free rate related primarily to credit quality and illiquidity of securities.
(b) represents the range of the credit spread curve used in valuation.

(c) the remainder of impaired loans valued using Level 3 inputs are not included in this disclosure as the values of those loans are based on bankruptcy agreement documentation.

(d) unobservable inputs are defined as follows: MCF - million cubic feet; BBL/d - barrels per day; NGL - natural gas liquid.

The significant unobservable inputs used in the fair value measurement of pooled trust preferred securities are the probability of default, discount rates and prepayment rates. Significant increases in the probability of default or discount rate used would result in a decrease in the estimated fair value of these securities while decreases in these variables would result in higher fair

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value measurements. In general, a change in the assumption of probability of default is accompanied by a directionally similar change in the discount rate. In most cases, increases in the prepayment rate assumptions would result in a higher estimated fair value for these securities while decreases would provide for a lower value. The direction of this change is somewhat dependent on the structure of the investment and the amount of the investment tranches senior to our position.

The discount rate is the significant unobservable input used in the fair value measurement of impaired loans. Significant increases in this rate would result in a decrease in the estimated fair value of the loans, while a decrease in this rate would result in higher fair value measurement. Other unobservable inputs in the fair value measurement of impaired loans relate to gas, oil and natural gas prices and increases in these rates would result in an increase in the estimated fair value of the loans, while a decrease in these prices would result in a lower fair value measurement.

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

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

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities—Residential	$—	$30,462	$—	$30,462
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities—Residential	—	990,660	—	990,660
Mortgage-Backed Securities—Commercial	—	140	—	140
Other Government-Sponsored Enterprises	—	242,438	—	242,438
Obligations of States and Political Subdivisions	—	85	—	85
Corporate Securities	—	6,973	—	6,973
Pooled Trust Preferred Collateralized Debt Obligations	—	—	24,512	24,512
Total Debt Securities	—	1,270,758	24,512	1,295,270
Equities	513	—	1,420	1,933
Total Securities Available for Sale	513	1,270,758	25,932	1,297,203
Other Investments	—	28,357	—	28,357
Other Assets(a)	—	16,763	—	16,763
Total Assets	$513	$1,315,878	$25,932	$1,342,323
Other Liabilities(a)	$—	$17,086	$—	$17,086
Total Liabilities	$—	$17,086	$—	$17,086

(a) Non-hedging interest rate derivatives

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

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Obligations of U.S. Government Agencies:				
Mortgage-Backed Securities—Residential	$—	$31,664	$—	$31,664
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage-Backed Securities—Residential	—	864,401	—	864,401
Mortgage-Backed Securities—Commercial	—	149	—	149
Other Government-Sponsored Enterprises	—	242,664	—	242,664
Obligations of States and Political Subdivisions	—	86	—	86
Corporate Securities	—	6,991	—	6,991
Pooled Trust Preferred Collateralized Debt Obligations	—	—	23,373	23,373
Total Debt Securities	—	1,145,955	23,373	1,169,328
Equities	555	—	1,420	1,975
Total Securities Available for Sale	555	1,145,955	24,793	1,171,303
Other Investments	—	28,228	—	28,228
Loans Held for Sale	—	—	—	—
Other Assets(a)	—	16,480	—	16,480
Total Assets	$555	$1,190,663	$24,793	$1,216,011
Other Liabilities(a)	$—	$18,726	$—	$18,726
Total Liabilities	$—	$18,726	$—	$18,726

(a) Non-hedging interest rate derivatives

For the three-month periods ended March 31, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	2013 Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$23,373	$1,420	$—	$—	$24,793
Total gains or losses					
Included in earnings	—	—	126	—	126
Included in other comprehensive income	2,391	—	—	—	2,391
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(16,739)	—	(16,739)
Settlements	(1,252)	—	—	—	(1,252)
Transfers into Level 3	—	—	16,613	—	16,613
Balance, end of period	$24,512	$1,420	$—	$—	$25,932

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

	2012 Pooled Trust Preferred Collateralized Debt Obligations	Equities	Loans Held for Sale	Other Assets	Total
	(dollars in thousands)				
Balance, beginning of period	$22,980	$1,420	$13,412	$—	$37,812
Total gains or losses					
Included in earnings	—	—	1,768	(461)	1,307
Included in other comprehensive income	2,268	—	—	—	2,268
Purchases, issuances, sales, and settlements					
Purchases	—	—	—	—	—
Issuances	—	—	—	—	—
Sales	—	—	(6,809)	—	(6,809)
Settlements	(740)	—	(295)	—	(1,035)
Transfers into Level 3	—	—	—	461	461
Balance, end of period	$24,508	$1,420	$8,076	$—	$34,004

For the three-months ended March 31, 2013 and 2012, there were no transfers between fair value Levels 1 and 2. However, $16.6 million of loans were transferred into Level 3 from Level 2 during the three-months ended March 31, 2013 due to the loans being transferred to a held for sale status. The loan sales related to two nonperforming relationships for which this was determined to be the appropriate exit strategy. Completion of the loan sales resulted in a $0.1 million gain for the period. For the three-months ended March 31, 2012, $0.5 million of interest rate swaps were transferred into Level 3 from Level 2 due to deterioration of the counterparty's credit risk below investment grade. There were no gains or losses included in earnings for the periods presented that are attributable to the change in realized gains (losses) relating to assets held at March 31, 2013 and 2012.

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

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	$—	$57,636	$7,956	$65,592
Other real estate owned	—	11,389	215	11,604
Total Assets	$—	$69,025	$8,171	$77,196

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

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

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

	For the Three-Months Ended March 31,	
	2013	2012
	(dollars in thousands)	
Impaired loans	$(503)	$(376)
Other real estate owned	(131)	(2,909)
Total losses	$(634)	$(3,285)

Impaired loans over $0.1 million are individually reviewed to determine the amount of each loan considered to be at risk of non-collection. The fair value for impaired loans that are collateral based is determined by reviewing real property appraisals, equipment valuations, accounts receivable listings and other financial information. A discounted cash flow analysis is performed to determine fair value for impaired loans when an observable market price or a current appraisal is not available. First Commonwealth's loan policy requires updated appraisals be obtained at least every twelve months on all impaired loans with balances of $250 thousand and over. For balances under $250 thousand, we rely on a broker-priced opinion.

The fair value for other real estate owned is determined by either an independent market based appraisal less estimated costs to sell or an executed sales agreement and is classified as Level 2. Other real estate owned has a book cost of $10.9 million as of March 31, 2013 and consisted primarily of a manufacturing plant in northern Pennsylvania, residential real estate in eastern Pennsylvania and a commercial real estate property in eastern Pennsylvania. We review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less estimated cost to sell, as determined by valuation techniques appropriate in the circumstances.

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Additional information related to goodwill is provided in Note 14, "Goodwill." There were no other assets or liabilities measured at fair value on a non-recurring basis during the three-months ended March 31, 2013.

FASB ASC 825-10, "Transition Related to FSP FAS 107-1" and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are as discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Cash and due from banks and interest-bearing bank deposits: The carrying amounts for cash and due from banks and interest-bearing bank deposits approximate the estimated fair values of such assets.

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

Loans held for sale: The fair value of loans held for sale is estimated utilizing a present value of future discounted cash flows of the loan utilizing a risk based expected return to discount the value unless a sales agreement has been

executed, in which case the sales price would equal fair value.
Loans: The fair values of all loans are estimated by discounting the estimated future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality adjusted for past due and nonperforming loans, which is not an exit price under FASB ASC Topic 820, “Fair Value Measurements and Disclosures.”

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
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Off-balance sheet instruments: Many of First Commonwealth's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. FASB ASC Topic 460, "Guarantees" clarified that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The carrying amount and fair value for standby letters of credit was $0.2 million and $0.2 million at March 31, 2013 and December 31, 2012, respectively. See Note 6, "Commitments and Contingent Liabilities," for additional information.

Deposit liabilities: Management estimates that the fair value of deposits is based on a market valuation of similar deposits. The carrying value of variable rate time deposit accounts and certificates of deposit approximate their fair values at the report date. Also, fair values of fixed rate time deposits for both periods are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities.

Short-term borrowings: The fair values of borrowings from the FHLB were estimated based on the estimated incremental borrowing rate for similar types of borrowings. The carrying amounts of other short-term borrowings such as federal funds purchased and securities sold under agreement to repurchase were used to approximate fair value due to the short-term nature of the borrowings.

Long-term debt and subordinated debt: The fair value of long-term debt and subordinated debt is estimated by discounting the future cash flows using First Commonwealth's estimated incremental borrowing rate for similar types of borrowing arrangements or an announced redemption price.

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

	March 31, 2013				
		Fair Value Measurements Using:			
	Carrying Amount	Total	Level 1	Level 2	Level 3
	(dollars in thousands)				
Financial assets					
Cash and due from banks	$53,991	$53,991	$53,991	$—	$—
Interest-bearing deposits	1,780	1,780	1,780	—	—
Securities available for sale	1,297,203	1,297,203	513	1,270,758	25,932
Other investments	28,357	28,357	—	28,357	—
Loans	4,218,810	4,291,687	—	57,636	4,234,051
Financial liabilities					
Deposits	4,711,578	4,645,967	—	4,645,967	—
Short-term borrowings	308,100	308,092	—	308,092	—
Long-term debt	174,318	176,295	—	176,295	—
Subordinated debt	105,750	79,539	—	34,699	44,840

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

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

Note 13 Derivatives

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

We have eleven risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are a participant. The risk participation agreements provide credit protection to the financial institution should the borrower fail to perform on its interest rate derivative contract with the financial institution. The fee received, less the estimate of the loss for the credit exposure, was recognized in earnings at the time of the transaction.

The following table depicts the credit value adjustment recorded related to the notional amount of derivatives outstanding as well as the notional amount of risk participation agreements participated to other banks:

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Credit value adjustment	$(362)	$(2,207)
Notional Amount:		
Interest rate derivatives	279,002	223,448
Risk participation agreements	72,774	71,390

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below presents the amount representing the change in the fair value of derivative assets and derivative liabilities attributable to credit risk included in other income on the Condensed Consolidated Statements of Income:

	For the Three-Months Ended March 31,	
	2013	2012
	(dollars in thousands)	
Non-hedging interest rate derivatives:		
Increase in other income	$989	$606

Note 14 Goodwill

FASB ASC Topic 350-20, “Intangibles – Goodwill and Other” requires an annual valuation of the fair value of a reporting unit that has goodwill and a comparison of the fair value to the book value of equity to determine whether the goodwill has been impaired. Goodwill is also required to be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. When triggering events or circumstances indicate goodwill testing is required, an assessment of qualitative factors can be completed before performing the two step goodwill impairment test. ASU 2011-8 provides that if an assessment of qualitative factors determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then the two step goodwill impairment test is not required.

First Commonwealth is considered to be one reporting unit. The carrying amount of goodwill as of March 31, 2013 and December 31, 2012 was $159.9 million. No impairment charges on goodwill or other intangible assets were incurred in 2013 or 2012.

We test goodwill for impairment as of November 30th each year and again at any quarter-end if any material events occur during a quarter that may affect goodwill. An assessment of qualitative factors was completed as of March 31, 2013 and indicated that it is more likely than not that the fair value of First Commonwealth exceeds its carrying amount, therefore the two step goodwill impairment test was not considered necessary. The assessment of qualitative factors incorporated the results of the Step 1 goodwill impairment test completed as of November 30, 2012 as well as macroeconomic factors, industry and market considerations, the company’s overall financial performance, and other company specific events occurring since the completion of the November 30, 2012 test.

As of March 31, 2013, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance, fair value of our assets and liabilities, or stock price could result in impairment, which could adversely affect earnings in future periods. Management will continue to monitor events that could impact this conclusion in the future.

Note 15 New Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This amendment addresses the previously deferred portions of ASU 2011-05 related to reclassifications out of accumulated other comprehensive income. This amendment requires an entity to provide information about amounts reclassified out of accumulated other comprehensive income (“AOCI”) by component. In addition, an entity is required to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of this ASU did not have a material impact on First Commonwealth’s financial condition or results of operations.

Note 16 Subsequent Event

On April 1, 2013, the Company redeemed $32.5 million in issued and outstanding 9.50% mandatorily redeemable capital securities and $1.1 million in common securities issued by First Commonwealth Capital Trust I at a price of 103.32% . In the second quarter of 2013, the redemption of these securities will result in the recognition of a $1.1 million prepayment penalty and $0.5 million in remaining deferred issuance costs.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ("First Commonwealth") for the three-months ended March 31, 2013 and 2012, and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q.

Forward-Looking Statements

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

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

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

Explanation of Use of Non-GAAP Financial Measure

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

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

We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on page 38 for the three-months ended March 31, 2013 and 2012.

Results of Operations

Three-Months Ended March 31, 2013 Compared to Three-Months Ended March 31, 2012

Net Income

For the three-months ended March 31, 2013, First Commonwealth had net income of $10.6 million, or $0.11 per share, compared to net income of $11.1 million or $0.11 per share in the three-months ended March 31, 2012. The slight decrease in net income was caused by declines in net interest and noninterest income as well as a slightly higher provision for credit losses all of which were partially offset by reductions in noninterest expense.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, was $46.4 million in the first three months of 2013 compared to $49.4 million for the same period in 2012. Net interest income comprises a majority of our operating revenue (net interest income before the provision plus noninterest income) at 75% and 73% for the three-months ended March 31, 2013 and 2012, respectively.

Net interest margin, on a fully taxable equivalent basis, was 3.45% for the three-months ended March 31, 2013 compared to 3.75% for the three-months ended March 31, 2012. Contributing to this 30 basis point decline was the recognition in 2012 of $1.0 million in interest income related to the payoff of a loan that was previously in nonaccrual status. This contributed 8 basis points to the net interest margin for the three months ended March 31, 2012. The net interest margin was also affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

The low interest rate environment and resulting decline in rates earned on interest-earning assets continued to challenge the net interest margin during the three-months ended March 31, 2013. 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 three-months ended March 31, 2013 increased $162.1 million, or 3%, compared to the comparable period in 2012. However, approximately one third of the growth in earning assets relates to the investment portfolio, which earns approximately 200 basis points less than if the funds were used to fund the loan portfolio. It is expected that the challenges to the net interest margin will continue as $2.8 billion in interest-sensitive assets either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.92% for the three-months ended March 31, 2013, a decrease of 47 basis points from the 4.39% yield for the same period in 2012. This decline can be attributed to the repricing of our variable rate assets in a declining rate environment as well as lower interest rates available on new investments and loans. Reductions in the cost of interest-bearing liabilities partially offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.59% for the three-months ended March 31, 2013, compared to 0.79% for the same period in 2012.

Comparing the three-months ended March 31, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $4.2 million. The lower yield on interest-earning assets adversely impacted net interest income by $6.7 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $2.6 million. We have been able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposit and borrowed funds, disciplined pricing strategies, loan growth and increasing our investment volumes within established interest rate risk management guidelines. As part of these strategies, on April 1, 2013, the Company redeemed $32.5 million in issued and outstanding 9.50% mandatorily redeemable capital securities and $1.1 million in common securities issued by First Commonwealth Capital Trust I

and replaced the funds with lower cost funding alternatives.
While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets tempered the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $1.2 million in the three-months ended March 31, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $1.7 million million in interest income, while volume changes primarily attributed to the mix of deposits increased interest expense by $0.5 million.

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Positively affecting net interest income was a $99.5 million increase in average net free funds at March 31, 2013 as compared to March 31, 2012. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders’ equity over noninterest-earning assets. The largest component of the increase in net free funds was an increase in noninterest-bearing demand deposit average balances as a result of marketing promotions aimed at attracting new and retaining existing customers. Additionally, higher costing time deposits continue to mature and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the three-months ended March 31, 2013 decreased $62.1 million, or 5%, compared to the comparable period in 2012. The positive change in deposit mix is expected to continue as $729.7 million in certificates of deposits either mature or reprice over the next twelve months.

The following table reconciles interest income in the Condensed Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the three-months ended March 31,:

	2013	2012
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	$51,761	$56,616
Adjustment to fully taxable equivalent basis	1,029	1,217
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	52,790	57,833
Interest expense	6,343	8,446
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$46,447	$49,387

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

The following is an analysis of the average balance sheets and net interest income on a fully taxable equivalent basis, for the three-months ended March 31,:

	2013				2012			
	Average Balance	Income / Expense (a)	Yield or Rate		Average Balance	Income / Expense (a)	Yield or Rate	
	(dollars in thousands)							
Assets								
Interest-earning assets:								
Interest-bearing deposits with banks	$3,346	$1	0.12	%	$3,776	$1	0.11	%
Tax-free investment securities (e)	85	2	7.39		457	8	7.04	
Taxable investment securities	1,234,589	7,145	2.35		1,178,774	8,570	2.92	
Loans, net of unearned income (b)(c)	4,222,606	45,642	4.38		4,115,483	49,254	4.81	
Total interest-earning assets	5,460,626	52,790	3.92		5,298,490	57,833	4.39	
Noninterest-earning assets:								
Cash	70,629				73,673			
Allowance for credit losses	(68,837)				(64,458)			
Other assets	567,485				593,648			
Total noninterest-earning assets	569,277				602,863			
Total Assets	$6,029,903				$5,901,353			
Liabilities and Shareholders' Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits (d)	$665,984	$65	0.04	%	$624,519	$96	0.06	%
Savings deposits (d)	1,940,711	920	0.19		1,951,740	1,305	0.27	
Time deposits	1,141,576	3,206	1.14		1,203,668	4,846	1.62	
Short-term borrowings	355,912	220	0.25		334,454	227	0.27	
Long-term debt	280,152	1,932	2.80		207,338	1,972	3.83	
Total interest-bearing liabilities	4,384,335	6,343	0.59		4,321,719	8,446	0.79	
Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	849,007				764,667			
Other liabilities	49,295				50,312			
Shareholders' equity	747,266				764,655			
Total noninterest-bearing funding sources	1,645,568				1,579,634			
Total Liabilities and Shareholders' Equity	$6,029,903				$5,901,353			
Net Interest Income and Net Yield on Interest-Earning Assets		$46,447	3.45	%		$49,387	3.75	%

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

(e) Yield for three months ended March 31, 2013 calculated using fully taxable equivalent interest income of $1,557.

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The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three-months ended March 31, 2013 compared with March 31, 2012:

	Analysis of Year-to-Year Changes in Net Interest Income		
	Total Change	Change Due To Volume	Change Due To Rate (a)
	(dollars in thousands)		
Interest-earning assets:			
Interest-bearing deposits with banks	$—	$—	$—
Tax-free investment securities	(6)	(7)	1
Taxable investment securities	(1,425)	405	(1,830)
Loans	(3,612)	1,281	(4,893)
Total interest income (b)	(5,043)	1,679	(6,722)
Interest-bearing liabilities:			
Interest-bearing demand deposits	(31)	6	(37)
Savings deposits	(385)	(7)	(378)
Time deposits	(1,640)	(250)	(1,390)
Short-term borrowings	(7)	14	(21)
Long-term debt	(40)	693	(733)
Total interest expense	(2,103)	456	(2,559)
Net interest income	$(2,940)	$1,223	$(4,163)

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

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

Provision for Credit Losses

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

The table below provides a breakout of the provision for credit losses by loan category for the three-months ended March 31,:

	2013		2012	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$833	19 %	$1,619	43 %
Real estate construction	(1,123)	(25)	(195)	(5)
Residential real estate	(560)	(12)	44	1
Commercial real estate	4,476	99	487	13
Loans to individuals	901	20	831	22
Unallocated	(30)	(1)	1,001	26
Total	$4,497	100 %	$3,787	100 %

The provision for credit losses for the three-months ended March 31, 2013 increased in comparison to the three-months ended March 31, 2012, by $0.7 million or 19%. The majority of the provision for credit losses during the three-months ended March 31, 2013, resulted from two non-accrual commercial real estate loans which were sold during the quarter. The sale of

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the loans required a combined charge-off and related provision expense of $3.1 million for a $15.5 million loan secured by an apartment building in eastern Pennsylvania and a $1.7 million loan secured by mixed use property in eastern Pennsylvania. Credit losses in the first quarter exceeded the provision for credit losses due to charge-offs taken on two nonaccrual loans for which the specific reserves were provided for in 2012. This includes a $2.8 million charge-off taken on a loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy and a $2.5 million charge-off for a western Pennsylvania student housing project for which the bank has begun the foreclosure process.

The negative provision for real estate construction loans can be attributed to the decline in principal balance in that loan category. Compared to December 31, 2012, outstanding real estate construction loans decreased $17.0 million, or 19%.

The allowance for credit losses was $62.3 million, or 1.48%, of total loans outstanding at March 31, 2013, compared to $67.2 million, or 1.60%, at December 31, 2012 and $60.7 million, or 1.47%, at March 31, 2012. The decline compared to December 31, 2012, can be attributed to a $33.6 million, or 12%, decline in criticized loans, which encompasses the $29.3 million, or 27%, decrease in nonperforming loans. Nonperforming loans as a percentage of total loans decreased to 1.86% at March 31, 2013 from 2.56% at December 31, 2012 and 2.17% as of March 31, 2012. The allowance to nonperforming loan ratio was 80%, 62% and 74% as of March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

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

	March 31, 2013	March 31, 2012	December 31, 2012
	(dollars in thousands)		
Balance, beginning of period	$67,187	$61,234	$61,234
Loans charged off:			
Commercial, financial, agricultural and other	538	1,914	5,207
Real estate construction	84	190	3,601
Residential real estate	322	1,712	3,828
Commercial real estate	8,544	235	851
Loans to individuals	988	941	3,482
Total loans charged off	10,476	4,992	16,969
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	128	238	443
Real estate construction	12	56	582
Residential real estate	723	133	422
Commercial real estate	97	158	410
Loans to individuals	94	118	521
Total recoveries	1,054	703	2,378
Net credit losses	9,422	4,289	14,591
Provision charged to expense	4,497	3,787	20,544
Balance, end of period	$62,262	$60,732	$67,187

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Noninterest Income
The following table presents the components of noninterest income for the three-months ended March 31,:

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Income:				
Trust income	$1,663	$1,542	$121	8 %
Service charges on deposit accounts	3,401	3,502	(101)	(3)
Insurance and retail brokerage commissions	1,417	1,424	(7)	—
Income from bank owned life insurance	1,428	1,445	(17)	(1)
Card related interchange income	3,188	3,114	74	2
Other income	2,520	3,632	(1,112)	(31)
Subtotal	13,617	14,659	(1,042)	(7)
Net securities gains	4	—	4	N/A
Gain on sale of assets	275	2,115	(1,840)	(87)
Derivatives mark to market	989	606	383	63
Total noninterest income	$14,885	$17,380	$(2,495)	(14)%

Noninterest income, excluding net securities gains, gain on sale of assets and the derivative mark to market adjustment decreased $1.0 million, or 7%, for the first three months of 2013 compared to 2012. The most notable change in this total is the $1.1 million decrease in the other income category, which is largely attributable to a $0.9 million decline in income from other real estate owned. The change in other real estate owned income is primarily the result of rental income received in 2012 from a western Pennsylvania office complex foreclosed on at the end of the first quarter of 2011 and sold in March 2012.

Total noninterest income decreased $2.5 million in comparison to the three-months ended March 31, 2012. The most significant changes in noninterest income, in addition to the aforementioned changes, were a $1.8 million decrease in gain on sale of assets. The higher level of gains in 2012 is primarily the result of a $1.7 million gain recognized on the sale of a loan in March 2012.

Noninterest Expense
The following table presents the components of noninterest expense for the three-months ended March 31,:

	2013	2012	$ Change	% Change
	(dollars in thousands)			
Noninterest Expense:				
Salaries and employee benefits	$21,793	$21,758	$35	— %
Net occupancy expense	3,635	3,404	231	7
Furniture and equipment expense	3,272	3,184	88	3
Data processing expense	1,516	1,563	(47)	(3)
Pennsylvania shares tax expense	1,190	1,183	7	1
Intangible amortization	358	371	(13)	(4)
Collection and repossession expense	1,151	2,699	(1,548)	(57)
Other professional fees and services	969	1,199	(230)	(19)
FDIC insurance	1,050	1,237	(187)	(15)
Other operating expenses	6,333	6,865	(532)	(8)
Subtotal	41,267	43,463	(2,196)	(5)
Loss on sale or write-down of assets	187	3,289	(3,102)	(94)
Total noninterest expense	$41,454	$46,752	$(5,298)	(11)%

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The 2013 decrease in noninterest expense is largely attributable to lower levels of expenses related to problem credits. Specifically, collection and repossession expense was $1.5 million, or 57%, lower as we resolved several large credits over the past twelve months. Additionally, the decline in loss on sale or write-down of assets is primarily attributable to the $2.8 million writedown on one OREO property recognized in the first quarter of 2012. There were no material OREO write-downs recognized in the first quarter of 2013.

Income Tax

The provision for income taxes decreased $0.2 million for the three-months ended March 31, 2013, compared to the corresponding period in 2012. The lower provision for income taxes was primarily the result of a $0.7 million decline in the level of net income before tax.

We applied the "annual effective tax rate approach" to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income for the three-months ended March 31, 2013 and 2012.

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 26.5% and 26.4% for the three-months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, our deferred tax assets totaled $62.2 million. Based on our evaluation as of March 31, 2013, we determined that it is more likely than not that all of these assets will be realized. As a result, we did not record a valuation allowance against these assets. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

Liquidity

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets, including investments. During the first three months of 2013, liquidity provided from the $153.7 million increase in deposits and proceeds of $14.1 million from the sale of loans provided funds to originate loans and purchase investment securities. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank ("FRB") of Cleveland and access to certificates of deposit through brokers.

In order to increase and diversify our funding sources, we participate in the Certificate of Deposit Account Registry Services ("CDARS") program as part of an Asset/Liability Committee ("ALCO") strategy to increase and diversify funding sources. As of March 31, 2013, our maximum borrowing capacity under this program was $908.4 million and as of that date there was $297.9 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 March 31, 2013, our outstanding certificates of deposits from this program have an average weighted rate of 0.26% and an average original term of 174 days.

An additional source of liquidity is the FRB Borrower-in-Custody of Collateral program which enables us to pledge certain loans, not being used as collateral at the FHLB, as collateral for borrowings at the FRB. At March 31, 2013, the borrowing capacity under this program totaled $811.4 million and there were no amounts outstanding.

As of March 31, 2013, our maximum borrowing capacity at the FHLB of Pittsburgh was $1.4 billion and as of that date amounts used against this capacity included $347.2 million in outstanding borrowings and $26.0 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

First Commonwealth Financial Corporation has an unsecured $15.0 million line of credit with another financial institution and as of March 31, 2013 there are no amounts outstanding on this line.

First Commonwealth's long-term liquidity source is its core deposit base. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is influenced

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by factors outside of management's control, such as the level of short-term and long-term market interest rates and yields offered on competing investments, such as money market mutual funds. The following table shows a breakdown of the components of First Commonwealth's deposits:

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Noninterest-bearing demand deposits	$883,307	$883,269
Interest-bearing demand deposits	90,276	97,963
Savings deposits	2,510,615	2,543,990
Time deposits	1,227,380	1,032,659
Total	$4,711,578	$4,557,881

During the first three months of 2013, total deposits increased $153.7 million due to a $194.7 million increase in time deposits, offset by a decrease of $41.1 million in interest-bearing and savings deposits. The increase in time deposits is due to growth in wholesale and retail certificates of deposits of $227.7 million. These deposits offer a more attractive source of funding as they generally have a lower cost of funds than traditional certificates of deposit.

Market Risk

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

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

	March 31, 2013					
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Over 1 Year Through 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	$2,029,196	$146,053	$301,393	$2,476,642	$1,394,227	$282,635
Investments	89,572	82,449	197,414	369,435	561,798	385,123
Other interest-earning assets	1,780	—	—	1,780	—	—
Total interest-sensitive assets (ISA)	2,120,548	228,502	498,807	2,847,857	1,956,025	667,758
Certificates of Deposit	479,785	92,380	157,544	729,709	488,610	9,061
Other deposits	2,600,891	—	—	2,600,891	—	—
Borrowings	409,970	114	232	410,316	138,639	39,213
	3,490,646	92,494	157,776	3,740,916	627,249	48,274

Total interest-sensitive liabilitites (ISL)						
Gap	$(1,370,098)	$136,008	$341,031	$(893,059)	$1,328,776	$619,484
ISA/ISL	0.61	2.47	3.16	0.76	3.12	13.83
Gap/Total assets	22.46 %	2.23 %	5.59 %	14.64 %	21.79 %	10.16 %

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

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

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
March 31, 2013	$(7,428)	$(4,047)	$(341)	$138
December 31, 2012	(8,204)	(4,767)	459	2,153

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current low interest rate environment. Results of the 100 and 200 basis point decline in interest rate scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1% and therefore cannot decline 100 or 200 basis points, yet our interest-sensitive assets are able to decline by these amounts. In the three-months ended March 31, 2013 and 2012, the cost of our interest-bearing liabilities averaged 0.59% and 0.79%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.92% and 4.39%, respectively.

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

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

Credit Risk

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

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

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructurings. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources. In the first three months of 2013, sixteen loans totaling $1.4 million were identified as troubled debt restructuring. Please refer to Note 10, "Loans and Allowance for Credit Losses," for additional information on troubled debt restructuring.

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

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

The allowance for credit losses was $62.3 million at March 31, 2013 or 1.48% of total loans outstanding compared to 1.60% reported at December 31, 2012 and 1.47% at March 31, 2012. The decline in the March 31, 2013 ratio when compared to December 31, 2012 can be attributed to a $5.1 million decline in specific reserves on nonperforming loans, primarily due to charge-offs taken during quarter. In addition, nonperforming balances decreased $29.3 million during the first quarter of 2013. Criticized loans totaled $254.9 million at March 31, 2013 and represented 6% of the loan portfolio. The level of criticized loans decreased as of March 31, 2013 when compared to December 31, 2012, by $33.6 million, or 12%. Delinquency on accruing loans for the same period increased $10.4 million, or 48%. The delinquency category of 30 - 59 days and over accounted for the majority of this change with an increase of $7.9 million, or 56% compared to December 31, 2012. This increase is related to a $7.7 million commercial real estate loan which had a balloon payment due in February 2013.

The allowance for credit losses as a percentage of nonperforming loans was 79.54% as of March 31, 2013 compared to 62.47% at December 31, 2012 and 74.45% at March 31, 2012. The amount of allowance related to nonperforming loans was determined by using fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific allocations of $12.7 million related to nonperforming loans covering 16% of the total nonperforming balance. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at March 31, 2013.

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

	March 31, 2013			2012			December 31, 2012		
	(dollars in thousands)								
Nonperforming Loans:									
Loans on nonaccrual basis	$31,576			$36,405		(c)	$43,539		
Loans held for sale on a nonaccrual basis	—			8,076			—		
Troubled debt restructured loans on nonaccrual basis	32,565			41,690			50,979		
Troubled debt restructured loans on accrual basis	14,140			3,482			13,037		
Total nonperforming loans	$78,281			$89,653			$107,555		
Loans past due in excess of 90 days and still accruing	$3,927			$8,126			$2,447		
Other real estate owned	$10,933			$21,335			$11,262		
Loans outstanding at end of period	$4,218,810			$4,128,588		(c)	$4,204,704		
Average loans outstanding	$4,222,606		(a)	$4,115,483		(a)	$4,165,292		(b)
Nonperforming loans as a percentage of total loans	1.86	%		2.17	%		2.56	%	
Provision for credit losses	$4,497		(a)	$3,787		(a)	$20,544		(b)
Allowance for credit losses	$62,262			$60,732			$67,187		
Net charge-offs	$9,422		(a)	$4,289		(a)	$14,591		(b)
Net charge-offs as a percentage of average loans outstanding (annualized)	0.90	%		0.42	%		0.35	%	
Provision for credit losses as a percentage of net charge-offs	47.73	%	(a)	88.30	%	(a)	140.80	%	(b)
Allowance for credit losses as a percentage of end-of-period loans outstanding (c)	1.48	%		1.47	%		1.60	%	
Allowance for credit losses as a percentage of nonperforming loans (c)	79.54	%		74.45	%		62.47	%	

(a) For the three-month period ended.
(b) For the twelve-month period ended.
(c) End of period loans and nonperforming loans exclude loans held for sale.

Nonperforming loans decreased $29.3 million to $78.3 million at March 31, 2013 compared to $107.6 million at December 31, 2012. Contributing to this decrease was the transfer and sale of $17.2 million of loans related to a real estate developer in eastern Pennsylvania as well as a $2.5 million commercial real estate loan in Nevada. At the time of transfer, $3.1 million in charge-offs were recognized on the $19.7 million in loans in order to reflect the loans at the lower of cost or fair market value. Also, a $3.8 million hotel resort syndication loan in the state of Washington was transferred to accrual status during the first quarter of 2013. This loan also received a $754 thousand partial paydown during the first quarter of 2013. In addition, $5.3 million in charge-offs were recognized on two commercial real estate loans during the quarter, including $2.8 million for a loan to a western Pennsylvania non-profit healthcare facility who recently filed for bankruptcy and $2.5 million for a western Pennsylvania student housing project for which the foreclosure process has begun.

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

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	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
	(dollars in thousands)			
Commercial, financial, agricultural and other	$1,057,663	25 %	$1,019,822	24 %
Real estate construction	70,461	2	87,438	2
Residential real estate	1,255,515	30	1,241,565	30
Commercial real estate	1,243,676	29	1,273,661	30
Loans to individuals	591,495	14	582,218	14
Total loans and leases net of unearned income	$4,218,810	100 %	$4,204,704	100 %

During the three-months ended March 31, 2013, loans increased $14.1 million or 0.34% compared to balances outstanding at December 31, 2012. A majority of the loan growth was recognized in the commercial, financial, agricultural and other portfolio and can be attributed to growth in direct middle market lending, syndications in Pennsylvania and contiguous states as well as lending to local municipalities. Increases in the residential real estate portfolio are the result of continued success with our home equity installment product, while loans to individuals increased due to growth in indirect auto lending.

Net charge-offs for the three-months ended March 31, 2013 totaled $9.4 million compared to $4.3 million for the three-months ended March 31, 2012. As previously noted, the most significant charge-offs during the three-months ended March 31, 2013 were a $5.3 million charge-offs recognized on two commercial real estate loans and a $3.1 million charge-off recognized upon transfer of two loans to held for sale. During the three-months ended March 31, 2012, the most significant charge-off was a $1.2 million charge taken on a $2.0 million commercial loan.

	For the Three-Months Ended March 31, 2013			As of March 31, 2013		
	Net Charge-offs	% of Total Net Charge-offs	Net Charge-offs as a % of Average Loans (annualized)	Nonperforming Loans	% of Total Nonperforming Loans	Nonperforming Loans as a % of Total Loans
	(dollars in thousands)					
Commercial, financial, agricultural and other	$410	4.35 %	0.04 %	$34,351	43.88 %	0.81 %
Real estate construction	72	0.77	0.01	8,982	11.47	0.22
Residential real estate	(401)	(4.26)	(0.04)	11,329	14.47	0.27
Commercial real estate	8,447	89.65	0.81	23,379	29.87	0.55
Loans to individuals	894	9.49	0.08	240	0.31	0.01
Total loans, net of unearned income	$9,422	100.00 %	0.90 %	$78,281	100.00 %	1.86 %

As the above table illustrates, commercial real estate loans represented a significant portion of the nonperforming loans as of March 31, 2013. See discussions related to the provision for credit losses and loans for more information.

Capital Resources

At March 31, 2013, shareholders' equity was $747.7 million, an increase of $1.7 million from December 31, 2012. The increase was primarily the result of $10.6 million net income offset by $5.0 million of dividends paid to shareholders, decreases of $1.6 million due to changes in the fair value of available for sale investments, and $2.4 million of common stock repurchases. Cash dividends declared per common share were $0.05 and $0.03 for the three-months ended March 31, 2013 and 2012, respectively.

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

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

and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require First Commonwealth to maintain minimum amounts and ratios of Total and Tier I capital (common and certain other "core" equity capital) to risk weighted assets, and of Tier I capital to average assets. As of March 31, 2013, First Commonwealth and its banking subsidiary met all capital adequacy requirements to which they are subject.

As of March 31, 2013, First Commonwealth was considered well-capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, the Company must maintain minimum Total risk-based capital, Tier I risk-based capital and Tier I leverage ratios as set forth in the table below:

	Actual			Regulatory Minumum			Well Capitalized Regulatory		
	Capital Amount	Ratio		Capital Amount	Ratio		Capital Amount	Ratio	
	(dollars in thousands)								
Total Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$711,651	14.52	%	$392,155	8.00	%			
First Commonwealth Bank	635,673	13.01		390,999	8.00		$488,749	10.00	%
Tier I Capital to Risk Weighted Assets									
First Commonwealth Financial Corporation	$650,285	13.27	%	$196,077	4.00	%			
First Commonwealth Bank	574,536	11.76		195,499	4.00		$293,249	6.00	%
Tier I Capital to Average Assets									
First Commonwealth Financial Corporation	$650,285	11.15	%	$233,220	4.00	%			
First Commonwealth Bank	574,536	9.94		231,279	4.00		$289,098	5.00	%

On June 19, 2012, the company announced a $50.0 million common stock repurchase program and on January 29, 2013, an additional share repurchase program was authorized for up to $25.0 million in shares of the Company's common stock. As of March 31, 2013, 5,984,775 shares were repurchased under these programs at an average price of $6.65 per share.

On April 1, 2013, First Commonwealth Financial Corporation redeemed $32.5 million in outstanding 9.50% mandatorily redeemable capital securities issued by First Commonwealth Capital Trust I.

On April 23, 2013, First Commonwealth Financial Corporation declared a quarterly dividend of $0.06 per share payable on May 17, 2013 to shareholders of record as of May 3, 2013. This dividend represents a 20% increase over the previous quarterly dividend of $0.05 per share. The timing and amount of future dividends are at the discretion of First Commonwealth's Board of Directors based upon, among other factors, capital levels, asset quality, liquidity and current and projected earnings.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Information appearing in Item 2 of this report under the caption "Market Risk" is incorporated by reference in response to this item.

ITEM 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms of the Securities and Exchange Commission.

In addition, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal controls over financial reporting to determine whether any changes occurred during the current fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified in connection with this evaluation.

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ITEM 1. LEGAL PROCEEDINGS

McGrogan v. First Commonwealth Bank

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

Other Legal Proceedings

First Commonwealth and certain of its subsidiaries have been named as defendants in various legal actions arising out of the normal course of business. In the opinion of management, the ultimate resolution of these lawsuits should not have a material adverse effect on First Commonwealth's business, consolidated financial position or results of operations. It is possible, however, that future developments could result in an unfavorable ultimate outcome for or resolution of any one or more of the lawsuits in which First Commonwealth or its subsidiaries are defendants, which may be material to First Commonwealth's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain, and management cannot make assurances that First Commonwealth will prevail in any of these actions, nor can management reasonably estimate the amount of damages that First Commonwealth might incur.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

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

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

Month Ending:	Total Number of Shares Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs*
January 31, 2013	106,574	$7.01	97,892	5,212,517
February 28, 2013	208,200	7.27	208,200	4,860,813
March 31, 2013	16,600	7.24	16,600	4,720,891
Total	331,374	$7.19	322,692	

* Remaining number of shares approved under the Plan is estimated based on the market value of the Company's common stock of $7.07 at January 31, 2013, $7.27 at February 28, 2013 and $7.46 at March 31, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
PART II – OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
10.1	2013 Annual Incentive Plan	Filed herewith
10.2	2013-2015 Long-Term Incentive Plan	Filed herewith
10.3	Change of Control Agreement dated March 1, 2013 between First Commonwealth Financial Corporation and Norman J. Montgomery	Filed herewith
10.4	Change of Control Agreement dated March 1, 2013 between First Commonwealth Financial Corporation and Carrie L. Riggle	Filed herewith
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	Interactive Data File (XBRL)	Furnished herewith

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SIGNATURES

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

FIRST COMMONWEALTH FINANCIAL CORPORATION
(Registrant)

DATED: May 8, 2013	/s/ T. Michael Price T. Michael Price President and Chief Executive Officer
DATED: May 8, 2013	/s/ Robert E. Rout Robert E. Rout Executive Vice President and Chief Financial Officer