FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-K
March 02, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2014
OR

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

For the transition period from to
Commission file Number 001-11138
FIRST COMMONWEALTH FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The aggregate market value of the voting and non-voting common stock, par value $1 per share, held by non-affiliates of the registrant (based upon the closing sale price on June 30, 2014) was approximately $851,661,514.

The number of shares outstanding of the registrant’s common stock, $1.00 Par Value as of February 27, 2015, was 90,523,277.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the annual meeting of shareholders to be held April 28, 2015 are incorporated by reference into Part III.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-K
INDEX

PART I		PAGE
ITEM 1.	Business	4
ITEM 1A.	Risk Factors	15
ITEM 1B.	Unresolved Staff Comments	20
ITEM 2.	Properties	20
ITEM 3.	Legal Proceedings	20
ITEM 4.	Mine Safety Disclosures	20
	Executive Officers of First Commonwealth Financial Corporation	21
PART II		
ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities	22
ITEM 6.	Selected Financial Data	24
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	46
ITEM 8.	Financial Statements and Supplementary Data	47
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	104
ITEM 9A.	Controls and Procedures	104
ITEM 9B.	Other Information	108
PART III		
ITEM 10.	Directors, Executive Officers and Corporate Governance	109
ITEM 11.	Executive Compensation	109
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	109
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	110

ITEM 14.	Principal Accountant Fees and Services	110
PART IV		
ITEM 15.	Exhibits, Financial Statements and Schedules	111
	Signatures	114

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not historical facts may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, among others, statements regarding our strategy, evaluations of our asset quality, future interest rate trends and liquidity, prospects for growth in assets and prospects for future operating results. Forward-looking statements can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or words of similar meaning, or future or conditional verbs such “will,” “would,” “should,” “could” or “may.” Forward-looking statements are based on assumptions of management and are or expectations of future results. You should not place undue reliance on our forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements as a result of, among others, the risk factors described in Item 1A of this report. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Table of Contents

PART I

ITEM 1. Business

Overview

First Commonwealth Financial Corporation ("First Commonwealth" or "we") is a financial holding company that is headquartered in Indiana, Pennsylvania. We provide a diversified array of consumer and commercial banking services through our bank subsidiary, First Commonwealth Bank ("FCB" or the "Bank"). We also provide trust and wealth management services and offer insurance products through FCB and our other operating subsidiaries. At December 31, 2014, we had total assets of $6.4 billion, total loans of $4.5 billion, total deposits of $4.3 billion and shareholders' equity of $716.1 million. Our principal executive office is located at 601 Philadelphia Street, Indiana, Pennsylvania 15701, and our telephone number is (724) 349-7220.

FCB is a Pennsylvania bank and trust company. At December 31, 2014, the Bank operated 110 community banking offices throughout western and central Pennsylvania and loan production offices in downtown Pittsburgh, Pennsylvania and Cleveland, Ohio. The largest concentration of our branch offices is located within the greater Pittsburgh metropolitan area in Allegheny, Butler, Washington and Westmoreland counties, while our remaining offices are located in smaller cities, such as Altoona, Johnstown and Indiana, Pennsylvania, and in towns and villages throughout predominantly rural counties. The Bank also operates a network of 114 automated teller machines, or ATMs, at various branch offices and offsite locations. All of our ATMs are part of the NYCE and MasterCard/Cirrus networks, both of which operate nationwide. The Bank is a member of the Allpoint ATM network, which allows surcharge-free access to over 55,000 ATMs. The Bank is also a member of the "Freedom ATM Alliance," which affords cardholders surcharge-free access to a network of over 670 ATMs in over 50 counties in Pennsylvania, Maryland, New York, West Virginia and Ohio.

Historical and Recent Developments

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

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

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

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

First Commonwealth regularly evaluates merger and acquisition opportunities and from time to time conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations, may take place and future merger acquisitions involving cash, debt or equity securities may occur. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of First Commonwealth's tangible book value and net income per common share may occur in connection with any future transaction.

Loan Portfolio

The Company’s loan portfolio includes several categories of loans that are discussed in detail below. The Company does not engage in subprime lending.

Table of Contents

Commercial, Financial, Agricultural and Other

Commercial, financial, agricultural and other loans represent term loans used to acquire business assets or revolving lines of credit used to finance working capital. These loans are generally secured by a first lien position on the borrower's business assets as a secondary source of repayment. The type and amount of the collateral varies depending on the amount and terms of the loan, but generally may include accounts receivable, inventory, equipment or other assets. Loans also may be supported by personal guarantees from the principals of the commercial loan borrowers.

Commercial loans are underwritten for credit-worthiness based on the borrowers' financial information, cash flow, net worth, prior loan performance, existing debt levels, type of business and the industry in which it operates. Advance rates on commercial loans are generally collateral-dependent and are determined based on the type of equipment, the mix of inventory and the quality of receivables. Approximately 22%, by principal amount, of our commercial real estate loans involve owner-occupied properties.

Credit risk for commercial loans can arise from a borrower's inability or unwillingness to repay the loan, and in the case of secured loans, from a shortfall in the collateral value in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral. The Company's Credit Policy establishes loan concentration limits by borrower, geography and industry.

Commercial Real Estate

Commercial real estate loans represent term loans secured by owner-occupied and non-owner occupied properties. Commercial real estate loans are underwritten based on an evaluation of each borrower's cash flow as the principal source of loan repayment, and are generally secured by a first lien on the property as a secondary source of repayment. Our underwriting process for non-owner occupied properties evaluates the history of occupancy, quality of tenants, lease terms, operating expenses and cash flow. Commercial real estate loans are subject to the same credit evaluation as previously described for commercial loans.

For loans secured by commercial real estate, at origination the Company obtains current and independent appraisals from licensed or certified appraisers to assess the value of the underlying collateral. The Company's general policy for commercial real estate loans is to limit the terms of the loans to not more than 10 years with loan-to-value ratios not exceeding 80% on owner-occupied and income producing properties. For non-owner occupied commercial real estate loans, the loan terms are generally aligned with the property's lease terms and are generally underwritten with a loan-to-value ratio not exceeding 75%.

Credit risk for commercial real estate loans can arise from economic conditions that could impact market demand, rental rates and property vacancy rates and declines in the collateral value in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral.

Real Estate Construction

Real estate construction represents financing for real estate development. The underwriting process for these loans is designed to confirm that the project will be economically feasible and financially viable and is generally conducted as though the Company would be providing permanent financing for the project. Development and construction loans are secured by the properties under development or construction, and personal guarantees are typically obtained as a secondary repayment source. The Company considers the financial condition and reputation of the borrower and any guarantors and generally requires a global cash flow analysis in order to assess the overall financial position of the developer.

Construction loans to residential builders are generally made for the construction of residential homes for which a binding sales contract exists and for which the prospective buyers have been pre-qualified for permanent mortgage financing by either third-party lenders or the Company. These loans are generally for a period of time sufficient to

complete construction. The Company no longer provides builder lot development lending.

Credit risk for real estate construction loans can arise from construction delays, cost overruns, failure of the contractor to complete the project to specifications and economic conditions that could impact demand for or supply of the property being constructed.

Residential Real Estate Loans

During the third quarter of 2014, First Commonwealth reentered the residential mortgage business, after a strategic decision in 2005 to discontinue mortgage lending. Residential real estate loans include first lien mortgages used by the borrower to purchase or refinance a principal residence and home equity loans and lines of credit secured by residential real estate. The Company’s underwriting process for these loans determines credit-worthiness based upon debt-to-income ratios, collateral values and other relevant factors.

Table of Contents

Credit risk for residential real estate loans can arise from a borrower's inability or unwillingness to repay the loan or a shortfall in the value of the residential real estate in relation to the outstanding loan balance in the event of a default and subsequent liquidation of the real estate collateral.

The residential real estate portfolio includes both conforming and non-conforming mortgage loans. Conforming mortgage loans represent loans originated in accordance with underwriting standards set forth by the government-sponsored entities, including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association, which serve as the primary purchasers of loans sold in the secondary mortgage market by mortgage lenders. These loans are generally collateralized by one-to-four-family residential real estate, have loan-to-collateral value ratios of 80% or less (or have mortgage insurance to insure down to 80%), and are made to borrowers in good credit standing. Non-conforming mortgage loans represent loans that generally are not saleable in the secondary market to the government-sponsored entities due to factors such as the credit characteristics of the borrower, the underlying documentation, the loan-to-value ratio, or the size of the loan. The Company does not offer "subprime," "interest-only" or "negative amortization" mortgages.

Home equity lines of credit and other home equity loans are originated by the Company for typically up to 90% of the appraised value, less the amount of any existing prior liens on the property. Additionally, the Company's credit policy requires borrower FICO scores of not less than 661 and a debt-to-income ratio of not more than 43%.

Loans to Individuals

The Loans to Individuals category includes consumer installment loans, personal lines of credit and indirect automobile loans. Credit risk for consumer loans can arise from a borrower's inability or unwillingness to repay the loan, and in the case of secured loans, by a shortfall in the value of the collateral in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral.

The underwriting criteria for automobile loans allow for such loans to be made for up to 100% of the purchase price or the retail value of the vehicle as listed by the National Automobile Dealers Association. The terms of the loan are determined by the age and condition of the collateral, and range from 36 to 84 months. Collision insurance policies are required on all automobile loans. The Company also makes other consumer loans, which may or may not be secured. The terms of secured consumer loans generally depend upon the nature of the underlying collateral. Unsecured consumer loans usually do not exceed $35 thousand and have a term of no longer than 36 months.

Deposits

Deposits are our primary source of funds to support our revenue-generating assets. We offer traditional deposit products to businesses and other customers with a variety of rates and terms. Deposits at our bank are insured by the FDIC up to statutory limits. We price our deposit products with a view to maximizing our share of each customer's financial services business and prudently managing our cost of funds. At December 31, 2014, we held $4.3 billion of total deposits, which consisted of $1.0 billion, or 23%, in checking accounts, $2.5 billion, or 58%, in money market, savings and passbook accounts, and $0.8 billion, or 19%, in CDs and IRAs.

Our deposit base is diversified by client type. As of December 31, 2014, no individual depositor represented more than 1% of our total deposits, and our top ten depositors represented only 1.4% of our total deposits. The composition of our deposit mix has recently changed with an increased proportion of non-interest-bearing deposits and other transaction accounts and a lower proportion of more expensive time deposits. This shift in deposit mix has been largely responsible for the recent declines in our average cost of deposits from 0.28% at December 31, 2013 to 0.34% at December 31, 2014.

Competition

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

than us. In addition, some of these competitors, such as credit unions, are subject to a lesser degree of regulation or taxation than that imposed on us.

Employees

At December 31, 2014, First Commonwealth and its subsidiaries employed 1,259 full-time employees and 114 part-time employees.

Table of Contents

Supervision and Regulation

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

Bank Holding Company Regulation

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

Acquisitions. Under the BHC Act, First Commonwealth is required to obtain the prior approval of the FRB before it can merge or consolidate with any other bank holding company or acquire all or substantially all of the assets of any bank that is not already majority owned by it or acquire direct or indirect ownership, or control of, any voting shares of any bank that is not already majority owned by it, if after such acquisition it would directly or indirectly own or control more than 5% of the voting shares of such bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the financial, including capital, position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act ("CRA") and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Non-Banking Activities. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies such as First Commonwealth may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally, without in either case the prior approval of the FRB. Activities that are financial in nature include securities underwriting and dealing, insurance agency activities and making merchant banking investments.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be well capitalized and well managed. A depository institution subsidiary is considered to be well capitalized if it satisfies the requirements for this status discussed in the section captioned Prompt Corrective Action, included elsewhere in this item. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least satisfactory in its most recent examination. A financial holding company's status will also depend upon its maintaining its status as well capitalized and well managed under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB's regulations provide that the financial holding company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company's depository institutions.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the

CRA.

The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

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

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

Affiliate Transactions. Transactions between FCB, on the one hand, and First Commonwealth and its other subsidiaries, on the other hand, are regulated under federal banking laws. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by FCB with, or for the benefit of, its affiliates, and generally requires those transactions to be on terms at least as favorable to FCB as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, any such transaction by FCB (or its subsidiaries) must be limited to certain thresholds on an individual and aggregate basis and, for credit transactions with any affiliate, must be secured by designated amounts of specified collateral.

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

Bank Regulation

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

Dividends and Stress Testing. First Commonwealth is a legal entity separate and distinct from its banking and other subsidiaries. As a bank holding company, First Commonwealth is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

A significant portion of our income comes from dividends from our bank, which is also the primary source of our liquidity. In addition to the restrictions discussed above, our bank is subject to limitations under Pennsylvania law regarding the level of dividends that it may pay to us. In general, dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus is at least equal to capital. Dividends may not reduce surplus without the prior consent of the Pennsylvania Department of Banking. FCB has not reduced its surplus through the payment of dividends. As of December 31, 2014, FCB could pay dividends to First Commonwealth of $128.5 million without reducing its capital levels below "well capitalized" levels and without the approval of the Pennsylvania Department of Banking.

In October 2012, as required by the Dodd-Frank Act, the FRB and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated

assets greater than $10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Although our assets are currently below this threshold, we have nevertheless commenced stressed testing to ensure that we are able to meet these requirements in a timely fashion. Neither we nor our bank is currently subject to the stress testing requirements, but we expect that once we are subject to those requirements, the FRB, the FDIC and the Pennsylvania Department of Banking and Securities will consider our results as an important factor in evaluating our capital adequacy, and that of our bank, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by us or by our bank may be an unsafe or unsound practice.

Table of Contents

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

Consumer Financial Protection. We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws’ respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act created a new, independent federal agency, the Consumer Financial Protection Bureau ("CFPB"), which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Although all institutions are subject to rules adopted by the CFPB and examination by the CFPB in conjunction with examinations by the institution’s primary federal regulator, the CFPB has primary examination and enforcement authority over institutions with assets of $10 billion or more. The FDIC has primary responsibility for examination of our bank and enforcement with respect to federal consumer protection laws so long as our bank has total consolidated assets of less than $10 billion, and state authorities are responsible for monitoring our compliance with all state consumer laws. The CFPB also has the authority to require reports from institutions with less than $10 billion in assets, such as our bank, to support the CFPB in implementing federal consumer protection laws, supporting examination activities, and assessing and detecting risks to consumers and financial markets.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in

increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

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

Table of Contents

rule, order or condition imposed by the FDIC. As an institution with less than $10 billion in assets, FCB's assessment rates are based on its risk classification (i.e., the level of risk it poses to the FDIC's deposit insurance fund). For institutions with $10 billion or more in assets, assessment rates are calculated using a scorecard that combines the supervisory risk ratings of the institution with certain forward-looking financial measures. These assessment rates are subject to adjustments based upon the insured depository institution's ratio of long-term unsecured debt to the assessment base, long-term unsecured debt issued by other insured depository institutions to the assessment base, and brokered deposits to the assessment base. However, the adjustments based on brokered deposits to the assessment base will not apply so long as the institution is well capitalized and has a composite CAMELS rating of 1 or 2. The CAMELS rating system is a bank rating system where bank supervisory authorities rate institutions according to six factors: capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk. The FDIC may make additional discretionary assessment rate adjustments.

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

Repeal Of Federal Prohibitions On Payment Of Interest On Demand Deposits. The federal prohibition restricting depository institutions from paying interest on demand deposit accounts was repealed effective on July 21, 2011 as part of the Dodd-Frank Act.

Capital Requirements

Regulatory Capital Requirements in Effect as of December 31, 2014. As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the FRB. FCB is subject to similar capital requirements administered by the FDIC and the Pennsylvania Department of Banking. The federal regulatory authorities' risk-based capital guidelines in effect as of December 31, 2014 were based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. The requirements were intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the requirements, banking organizations were required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations were assigned to various risk categories.

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

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

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

Bank holding companies and banks were also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The minimum leverage ratio was 3.0% for bank holding companies and depository institutions that either have the highest supervisory rating or have implemented the appropriate federal regulatory

authority's risk-adjusted measure for market risk. All other bank holding companies and depository institutions were required to maintain a minimum leverage ratio of 4.0%, unless a different minimum was specified by an appropriate regulatory authority. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Basel III Capital Rules Effective January 1, 2015. In July 2013, the FRB, the FDIC and other bank regulatory agencies published the Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The

Table of Contents

rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the current U.S. risk-based capital rules. The Basel III Capital Rules, among other things:

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

Under the Basel III Capital Rules, the initial minimum capital ratios that became effective on January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets
- 6.0% Tier 1 capital to risk-weighted assets
- 8.0% Total capital to risk-weighted assets
- 4.0% Tier 1 capital to average quarterly assets

When fully phased in on January 1, 2019, the Basel III Capital Rules will require First Commonwealth and FCB to maintain a 2.5% "capital conservation buffer" to the required ratios of CET1 to risk-weighted assets, Tier 1 capital to risk-weighted assets and Total capital to risk-weighted assets, effectively resulting in minimum ratios of 7.0%, 8.5% and 10.5%, respectively.

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

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under capital standards in effect as of December 31, 2014, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, smaller banking organizations, including First Commonwealth and FCB, may make a one-time permanent election to continue to exclude these items.

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

With respect to FCB, the Basel III Capital Rules also revise the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "Prompt Corrective Action." The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to the rules impacting First Commonwealth's determination of risk-weighted assets include, among other things:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
-

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

- Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.
- Providing for a 100% risk weight for claims on securities firms.
- Eliminating the current 50% cap on the risk weight for OTC derivatives.

Management believes that, as of December 31, 2014, First Commonwealth and FCB would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were in effect as of that date.

Liquidity Requirements

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (“NSFR”), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. In September 2014, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to First Commonwealth or FCB. The federal bank regulators have not yet proposed rules to implement the NSFR or addressed the scope of bank organizations to which it will apply. The Basel Committee's final NSFR document states that the NSFR applies to internationally active banks, as did its final LCR document as to that ratio.

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (“FDIA”), requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures, which reflect changes under the Basel III Capital Rules that became effective on January 1, 2015, are the total capital ratio, the CET1 capital ratio (a new ratio requirement under the Basel III Capital Rules), the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater (6.0% prior to January 1, 2015), and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater (4.0% prior to January 1, 2015), and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% (4.0% prior to January 1, 2015) or a leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a CET1 capital ratio less than 3%, a Tier 1 risk-based capital ratio of less than 4.0% (3.0% prior to January 1, 2015) or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan and must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution’s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into

compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

First Commonwealth believes that, as of December 31, 2014, FCB was a “well-capitalized” bank as defined by the FDIC. See Note 26 “Regulatory Restrictions and Capital Adequacy” of Notes to the Consolidated Financial Statements, contained in Item 8, for a table that provides a comparison of First Commonwealth’s and FCB’s risk-based capital ratios and the leverage ratio to minimum regulatory requirements.

The Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds (so called "covered funds"). The statutory provision is commonly called the “Volcker Rule.” In December 2013, federal regulators adopted final rules to implement the Volcker Rule that became effective in April 2014. The FRB, however, issued an order extending the period that institutions have to conform their covered funds activities to the requirements of the Volcker Rule to July 21, 2015. Banks with less than $10 billion in total consolidated assets, such as our bank, that do not engage in any covered activities, other than trading in certain government, agency, state or municipal obligations, do not have any significant compliance obligations under the rules implementing the Volcker Rule. We are continuing to evaluate the effects of the Volcker Rule on our business, but we do not currently anticipate that the Volcker Rule will have a material effect on our operations.

Depositor Preference

Under federal law, depositors (including the FDIC with respect to the subrogated claims of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the FRB adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions. Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The FRB also adopted a rule to allow a debit card issuer to recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the FRB. The FRB also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

The Dodd-Frank Act contained an exemption from the interchange fee cap for any debit card issuer that, together with its affiliates, has total assets of less than $10 billion as of the end of the previous calendar year. We currently qualify for this exemption. We would become subject to the interchange fee cap beginning July 1 of the year following the time when our total assets reaches or exceeds $10 billion.

Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the FRB pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets. Following the time at which our or our bank’s

Table of Contents

total consolidated assets, as applicable, equal or exceed $10 billion, we or our bank, as applicable, will, among other requirements:

- be required to perform annual stress tests as described above under Dividends and Stress Testing;
- be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;
- calculate our FDIC deposit assessment base using the performance score and a loss-severity score system described above under Deposit Insurance; and
- be examined for compliance with federal consumer protection laws primarily by the CFPB as described above under Consumer Financial Protection.

While neither we nor our bank currently have $10 billion or more in total consolidated assets, we have begun analyzing these rules to ensure we are prepared to comply with the rules when and if they become applicable.

Financial Privacy

The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the “USA Patriot Act”) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department’s Office of Foreign Assets Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. First Commonwealth is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or

future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and modify our business strategy, and limit our ability to pursue business

Table of Contents

opportunities in an efficient manner. Our business, financial condition, results of operations or prospects may be adversely affected, perhaps materially, as a result.

Availability of Financial Information

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

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

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

ITEM 1A. Risk Factors

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

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

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

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

We are subject to extensive government regulation and supervision.

Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect compliance and other legal matters involving

financial activities, which heightens the risks associated with actual and perceived compliance failures. See "Supervision and Regulation" included in Item 1. Business for a more detailed description of the Dodd-Frank Act and other regulatory requirements applicable to First Commonwealth.

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

As of December 31, 2014, approximately 61% of our loans were secured by real estate. These loans consist of residential real estate loans (approximately 27% of total loans), commercial real estate loans (approximately 31% of total loans) and real estate construction loans (approximately 3% of total loans). During the economic recession in 2008, declines in real estate values and weak demand for new construction, particularly outside of our core Pennsylvania market, caused deterioration in our loan portfolio and adversely impacted our financial condition and results of operations. Additional declines in real estate values, both within and outside of Pennsylvania, could adversely affect the value of the collateral for these loans, the ability of borrowers to make timely repayment of these loans and our ability to recoup the value of the collateral upon foreclosure, further impacting our earnings and financial condition.

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

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

Our allowance for credit losses may be insufficient.

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

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

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

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

operations.
At December 31, 2014, goodwill represented approximately 3% of our total assets. We have recorded goodwill because we paid more for some of our businesses than the fair market value of the tangible and separately measurable intangible net assets of those businesses. We test our goodwill and other intangible assets with indefinite lives for impairment at least annually (or whenever events occur which may indicate possible impairment). Goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value exceeds the carrying amount, goodwill of

the reporting unit is not considered impaired. If the fair value of the reporting unit is less than the carrying amount, goodwill is considered impaired. Determining the fair value of our company requires a high degree of subjective management assumptions. Any changes in key assumptions about our business and its prospects, changes in market conditions or other externalities, for impairment testing purposes could result in a non-cash impairment charge and such a charge could have a material adverse effect on our consolidated results of operations. The challenges of the current economic environment may adversely affect our earnings, the fair value of our assets and liabilities and our stock price, all of which may increase the risk of goodwill impairment.

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

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

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

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

Negative publicity could damage our reputation.

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

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

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

Our controls and procedures may fail or be circumvented.

Our internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on First Commonwealth's business, financial condition and results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of the our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be

17

successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on First Commonwealth’s business, financial condition and results of operations.

Our operations rely on external vendors.

We rely on certain vendors to provide products and services necessary to maintain day-to-day operations of First Commonwealth. In particular, in 2014, we contracted with an external vendor for our core processing system used to maintain customer and account records, reflect account transactions and activity, and support our customer relationship management systems for substantially all of our deposit and loan customers. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor’s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to First Commonwealth’s operations and financial reporting, which could have a material adverse effect on First Commonwealth’s business and, in turn, First Commonwealth’s financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, First Commonwealth may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on First Commonwealth’s business, financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of First Commonwealth’s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on First Commonwealth’s business, financial condition and results of operations.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on First Commonwealth’s business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, loss of public confidence, including through default by any one institution, could lead to liquidity challenges or to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various

institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis or key funding providers such as the Federal Home Loan Banks, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

Table of Contents

First Commonwealth's stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. First Commonwealth's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to First Commonwealth.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding First Commonwealth and/or its competitors.
- New technology used, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving First Commonwealth or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, including real or anticipated changes in the strength of the Pennsylvania economy; industry factors and general economic and political conditions and events, such as economic slowdowns or recessions; interest rate changes or credit loss trends could also cause First Commonwealth's stock price to decrease regardless of operating results.

The trading volume in First Commonwealth's common stock is less than that of other larger financial services companies.

Although First Commonwealth's common stock is listed for trading on the NYSE), the trading volume in its common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of First Commonwealth's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of First Commonwealth's common stock, significant sales of First Commonwealth's common stock, or the expectation of these sales, could cause First Commonwealth's stock price to fall.

First Commonwealth may not continue to pay dividends on its common stock in the future.

Holders of First Commonwealth common stock are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. Although First Commonwealth has historically declared cash dividends on its common stock, it is not required to do so and may reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of First Commonwealth's common stock. Also, First Commonwealth is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the FRB regarding capital adequacy and dividends.

As more fully discussed in Part II, Item 8, Financial Statements and Supplementary Data-Note 26, Regulatory Restrictions and Capital Adequacy, which is located elsewhere in this report, the ability of First Commonwealth to declare or pay dividends on its common stock may also be subject to certain restrictions in the event that First Commonwealth elects to defer the payment of interest on its junior subordinated debt securities.

An investment in First Commonwealth's common stock is not an insured deposit.

First Commonwealth's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in First Commonwealth's common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire First Commonwealth's common stock, you could lose some or all of your investment.

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

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

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

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

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

Table of Contents

Executive Officers of First Commonwealth Financial Corporation

The name, age and principal occupation for each of the executive officers of First Commonwealth Financial Corporation as of December 31, 2014 is set forth below:

I. Robert Emmerich, age 64, has served as Executive Vice President and Chief Credit Officer of First Commonwealth Bank since 2009. Prior to joining First Commonwealth, Mr. Emmerich was retired from a 31-year career at National City Corporation, where he most recently served as Executive Vice President & Chief Credit Officer for Consumer Lending.

Jane Grebenc, age 56, has served as Executive Vice President and Chief Revenue Officer of First Commonwealth Financial Corporation and President of First Commonwealth Bank since May 31, 2013. Ms. Grebenc's financial services career includes executive leadership roles at a variety of institutions, including Park View Federal Savings Bank, Key Bank, and National City Bank. She was formerly the Executive Vice President in charge of the retail, marketing, IT and operations and the mortgage segments at Park View Federal Savings Bank from 2009 until 2012, the Executive Vice President in charge of the Wealth Segment at Key Bank from 2007 until 2009 and the Executive Vice President / Branch Network at National City Bank prior to 2007.

Leonard V. Lombardi, age 55, has served as Executive Vice President and Chief Audit Executive of First Commonwealth Financial Corporation since January 1, 2009. He was formerly Senior Vice President / Loan Review and Audit Manager.

Norman J. Montgomery, age 47, has served as the Executive Vice President of Business Integration of First Commonwealth Bank since May 2011. He oversees First Commonwealth's product development and assumed oversight of First Commonwealth's technology and operations functions in July 2012. He served as Senior Vice President/Business Integration of First Commonwealth Bank from September 2007 until May 2011 and previously held positions in the technology, operations, audit and marketing areas.

T. Michael Price, age 52, has served as President of First Commonwealth Bank since November 2007. On March 7, 2012, he began serving as President and Chief Executive Officer of First Commonwealth Financial Corporation. From January 1, 2012 to March 7, 2012, he served as Interim President and Chief Executive Officer of First Commonwealth Financial Corporation. He was formerly Chief Executive Officer of the Cincinnati and Northern Kentucky Region of National City Bank from July 2004 to November 2007 and Executive Vice President and Head of Small Business Banking of National City Bank prior to July 2004.

James R. Reske, age 51, joined First Commonwealth Financial Corporation as Executive Vice President, Chief Financial Officer and Treasurer on April 28, 2014. Prior to joining First Commonwealth, Mr. Reske served as Executive Vice President, Chief Financial Officer, and Treasurer at United Community Financial Corporation in Youngstown, Ohio from 2008 until April 2014. Mr. Reske's financial services career includes investment banking roles within the Financial Institutions Groups at Keybanc Capital Markets, Inc. in Cleveland, Ohio and at Morgan Stanley & Company in New York. Mr. Reske also provided expertise and counsel to financial institutions and other organizations on mergers and acquisitions and capital markets activities as an attorney at Wachtell, Lipton, Rosen & Katz, as well as at Sullivan & Cromwell. Earlier in his career, Mr. Reske worked at the Board of Governors of the Federal Reserve System in Washington, DC and at the Federal Reserve Bank of Boston.

Carrie L. Riggle, age 45, has served as Executive Vice President / Human Resources since March 1, 2013. Ms. Riggle has been with First Commonwealth for more than 20 years. Over the course of her tenure, Ms. Riggle has been responsible for the daily operations of the Human Resources function and was actively involved in the establishment and development of a centralized corporate human resources function within the Company.

Matthew C. Tomb, age 38, has served as Executive Vice President, Chief Risk Officer and General Counsel of First Commonwealth Financial Corporation since November 2010. He previously served as Senior Vice President / Legal and Compliance since September 2007. Before joining First Commonwealth, Mr. Tomb practiced law with Sherman & Howard L.L.C. in Denver, Colorado.

Table of Contents

PART II

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

First Commonwealth is listed on the NYSE under the symbol "FCF." As of December 31, 2014, there were approximately 7,003 holders of record of First Commonwealth's common stock. The table below sets forth the high and low sales prices per share and cash dividends declared per share for common stock of First Commonwealth for each quarter during the last two fiscal years.

Period	High Sale	Low Sale	Cash Dividends Per Share
2014			
First Quarter	$9.34	$7.83	$0.07
Second Quarter	9.41	8.14	0.07
Third Quarter	9.49	8.39	0.07
Fourth Quarter	9.55	8.36	0.07

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

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

Table of Contents

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on First Commonwealth's common stock to the KBW Regional Banking Index and the Russell 2000 Index. The stock performance graph assumes $100 was invested on December 31, 2009, and the cumulative return is measured as of each subsequent fiscal year end.

	Period Ending					
Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
First Commonwealth Financial Corporation	100.00	153.81	116.74	155.64	207.51	224.09
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
KBW Regional Banking Index	100.00	120.39	114.21	129.52	190.18	194.80

Unregistered Sales of Equity Securities and Use of Proceeds

The following table details the amount of shares repurchased during the fourth quarter of 2014.

Month Ending:	Total Number of Shares Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 31, 2014	—	$—	—	—
November 30, 2014	3,121	9.09	—	—
December 31, 2014	—	—	—	—
Total	3,121	$9.09	—	

For additional information, please see Part IV, Item 12, "Security ownership of Certain Beneficial Owners." Information called for by this item concerning security ownership of certain beneficial owners and security ownership of management will be included in the Proxy Statement under the headings "Security Ownership of Certain Beneficial Owners" and "Securities Owned by Directors and Management," and is incorporated herein by reference.

Table of Contents

ITEM 6. Selected Financial Data

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

	Periods Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands, except share data)				
Interest income	$202,181	$206,358	$219,075	$231,545	$268,360
Interest expense	18,501	21,707	30,146	41,678	61,599
Net interest income	183,680	184,651	188,929	189,867	206,761
Provision for credit losses	11,196	19,227	20,544	55,816	61,552
Net interest income after provision for credit losses	172,484	165,424	168,385	134,051	145,209
Net impairment losses	—	—	—	—	(9,193)
Net securities gains (losses)	550	(1,158)	192	2,185	2,422
Other income	60,309	61,321	65,242	55,484	56,005
Other expenses	171,210	168,824	177,207	176,826	171,226
Income before income taxes	62,133	56,763	56,612	14,894	23,217
Income tax provision (benefit)	17,680	15,281	14,658	(380)	239
Net Income	$44,453	$41,482	$41,954	$15,274	$22,978
Per Share Data—Basic					
Net Income	$0.48	$0.43	$0.40	$0.15	$0.25
Dividends declared	$0.28	$0.23	$0.18	$0.12	$0.06
Average shares outstanding	93,114,654	97,028,157	103,885,396	104,700,227	93,197,225
Per Share Data—Diluted					
Net Income	$0.48	$0.43	$0.40	$0.15	$0.25
Average shares outstanding	93,114,654	97,029,832	103,885,663	104,700,393	93,199,773
At End of Period					
Total assets	$6,360,285	$6,214,861	$5,995,390	$5,841,122	$5,812,842
Investment securities	1,354,364	1,353,809	1,199,531	1,182,572	1,016,574
Loans and leases, net of unearned income	4,457,308	4,283,833	4,204,704	4,057,055	4,218,083
Allowance for credit losses	52,051	54,225	67,187	61,234	71,229
Deposits	4,315,511	4,603,863	4,557,881	4,504,684	4,617,852
Short-term borrowings	1,105,876	626,615	356,227	312,777	187,861
Subordinated debentures	72,167	72,167	105,750	105,750	105,750
Other long-term debt	89,459	144,385	174,471	101,664	98,748
Shareholders' equity	716,145	711,697	746,007	758,543	749,777
Key Ratios					
Return on average assets	0.71 %	0.68 %	0.71 %	0.27 %	0.37 %
Return on average equity	6.18	5.70	5.46	2.00	3.33
Net loans to deposits ratio	102.08	91.87	90.78	88.70	89.80
Dividends per share as a percent of net income per share	58.33	53.49	44.57	82.26	23.72
Average equity to average assets ratio	11.45	11.87	12.95	13.33	11.26

Table of Contents

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

The following discussion and analysis represents an overview of the financial condition and the results of operations of First Commonwealth and its subsidiaries, FCB, First Commonwealth Insurance Agency, Inc. ("FCIA") and First Commonwealth Financial Advisors, Inc. ("FCFA"), as of and for the years ended December 31, 2014, 2013 and 2012. During 2014, First Commonwealth sold its registered investment advisory business. The purpose of this discussion is to focus on information concerning our financial condition and results of operations that is not readily apparent from the Consolidated Financial Statements. In order to obtain a more thorough understanding of this discussion, you should refer to the Consolidated Financial Statements, the notes thereto and other financial information presented in this Annual Report.

Company Overview

First Commonwealth provides a diversified array of consumer and commercial banking services through our bank subsidiary, FCB. We also provide trust and wealth management services through FCB and insurance products through FCIA. At December 31, 2014, FCB operated 110 community banking offices throughout western Pennsylvania and loan production offices in downtown Pittsburgh, Pennsylvania and Cleveland, Ohio.

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

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

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

Critical Accounting Policies and Significant Accounting Estimates

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

Allowance for Credit Losses

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

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

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

Fair Values of Financial Instruments

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a framework for measuring fair value. In accordance with FASB ASC Topic 820, First Commonwealth groups financial assets and financial liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 2 valuations are for instruments that trade in less active dealer or broker markets and incorporates values obtained for identical or comparable instruments. Level 3 valuations are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to each instrument.

Level 2 investment securities are valued by a recognized third party pricing service using observable inputs. Management validates the market values provided by the third party service by having another recognized pricing service price 100% of securities on an annual basis and a random sample of securities each quarter, monthly monitoring of variances from prior period pricing and on a monthly basis evaluating pricing changes compared to expectations based on changes in the financial markets.

Level 3 investments include pooled trust preferred collateralized debt obligations. The fair values of these investments are determined by a specialized third party valuation service. Management validates the fair value of the pooled trust preferred collateralized debt obligations by monitoring the performance of the underlying collateral, discussing the discount rate, cash flow assumptions and general market trends with the specialized third party and by confirming changes in the underlying collateral to the trustee and underwriter reports. Management's monitoring of the underlying collateral includes deferrals of interest payments, payment defaults, cures of previously deferred interest payments,

any regulatory filings or actions and general news related to the underlying collateral. Management also evaluates fair value changes compared to expectations based on changes in the interest rates used in determining the discount rate and general financial markets.
Methodologies and estimates used by management when determining the fair value for pooled trust preferred collateralized debt obligations and testing those securities for other-than-temporary impairment are discussed in detail in Management's

Table of Contents

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

Income Taxes

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

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

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

Results of Operations—2014 Compared to 2013

Net Income

Net income for 2014 was $44.5 million, or $0.48 per diluted share, as compared to net income of $41.5 million, or $0.43 per diluted share, in 2013. Net income in 2014 was positively impacted by a decrease in provision expense of $8.0 million, offset by a decline of $1.0 million in net interest income and an increase in noninterest expense of $2.4 million. Noninterest expense increased as the result of $7.4 million in expenses related to a core system conversion in 2014 and the recording of an $8.6 million legal contingency reserve.

Our return on average equity was 6.2% and return on average assets was 0.71% for 2014, compared to 5.7% and 0.68%, respectively, for 2013.

Average diluted shares for the year 2014 were 4% less than the comparable period in 2013 primarily due to the common stock buyback programs that were authorized during 2014 and 2013.

Net Interest Income

Net interest income, which is our primary source of revenue, is the difference between interest income from earning assets (loans and securities) and interest expense paid on liabilities (deposits, short-term borrowings and long-term debt). The amount of net interest income is affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities. The net interest margin is expressed as the percentage of net interest income, on a fully taxable equivalent basis, to average interest-earning assets. To compare the tax exempt asset yields to taxable yields, amounts are adjusted to the pretaxable equivalent amounts based on the marginal corporate federal income tax rate of 35%. The taxable equivalent adjustment to net interest income for 2014 was $3.3 million compared to $4.1 million in 2013. Net interest income comprises a majority of our operating revenue

(net interest income before the provision plus noninterest income) at 75% for both years ended December 31, 2014 and 2013.

Net interest income, on a fully taxable equivalent basis, was $187.0 million for the year-ended December 31, 2014, a $1.7 million, or 1%, decrease compared to $188.7 million for the same period in 2013. The net interest margin, on a fully taxable equivalent basis, decreased 12 basis points, or 4%, to 3.27% in 2014 from 3.39% in 2013. The net interest margin is affected by

Table of Contents

both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

The low interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the year ended December 31, 2014. Yields and spreads on new loan volumes continued to experience competitive pricing pressures in 2014, specifically home equity and indirect loans. Also contributing to lower yields on earning assets is the runoff of existing older assets, which were earning higher interest rates than new volumes, as well as growth in the investment portfolio. Growth in earning assets has helped to offset the spread compression as average earning assets for the year ended December 31, 2014 increased $166.5 million, or 3%, compared to the comparable period in 2013. However, approximately 39% of the growth in earning assets relates to the investment portfolio, which is earning approximately 180 basis points less than the rate earned on growth in the loan portfolio. Investment portfolio purchases during 2014 have been primarily in the mortgage-related assets with approximate durations of 36-48 months and municipal securities with a duration of five years. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities as interest rates rise. It is expected that the challenges to the net interest margin will continue as $3.0 billion in interest-sensitive assets either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.59% for the year ended December 31, 2014, a decrease of 20 basis points from the 3.79% yield for the same period in 2013. This decline can be attributed to the repricing of our variable rate assets 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 0.41% for the year-ended December 31, 2014, compared to 0.48% for the same period in 2013.

Comparing the year-ended December 31, 2014 with the same period in 2013, changes in interest rates negatively impacted net interest income by $9.4 million. The lower yield on interest-earning assets adversely impacted net interest income by $11.3 million, while the decline in the cost of interest-bearing liabilities had a positive impact of $1.9 million. We have been able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposits and borrowed funds, growing the loan portfolio and increasing our investment volumes within established interest rate risk management guidelines.

While decreases in interest rates and yields compressed the net interest margin, increases in average interest-earning assets and a lower cost of funds tempered the effect on net interest income. Changes in the volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $7.7 million in the year ended December 31, 2014 compared to the same period in 2013. Higher levels of interest-earning assets resulted in an increase of $6.4 million in interest income, while increased short-term borrowings, partially offset by a reduction in long-term borrowings increased interest expense by $1.3 million. During the third quarter of 2014, as a means of protecting the net interest margin against a prolonged low rate environment, the Company entered into $100 million in interest rate swaps which extended the duration of a portion of our $1.3 billion in LIBOR based loans.

Positively affecting net interest income was a $100.1 million increase in average net free funds at December 31, 2014 as compared to December 31, 2013. Average net free funds are the excess of noninterest-bearing demand deposits, other noninterest-bearing liabilities and shareholders' equity over noninterest-earning assets. The largest component of the increase in net free funds was a $88.3 million increase in average noninterest-bearing demand deposits. Additionally, higher costing time deposits continue to mature and reprice to lower costing certificates or other deposit alternatives. Average time deposits for the year ended December 31, 2014 decreased $126.9 million million, or 11%, compared to the comparable period in 2013, while the average rate paid on time deposits decreased 11 basis points. The positive change in deposit mix is expected to continue as $586.9 million in certificates of deposits either mature or reprice over the next twelve months.

The following table reconciles interest income in the Consolidated Statements of Income to net interest income adjusted to a fully taxable equivalent basis for the periods presented:

	For the Years Ended December 31,		
	2014	2013	2012

	(dollars in thousands)		
Interest income per Consolidated Statements of Income	$202,181	$206,358	$219,075
Adjustment to fully taxable equivalent basis	3,327	4,081	4,392
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	205,508	210,439	223,467
Interest expense	18,501	21,707	30,146
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$187,007	$188,732	$193,321

Table of Contents

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

	Average Balance Sheets and Net Interest Analysis								
	2014			2013			2012		
	Average Balance	Income / Expense (a)	Yield or Rate	Average Balance	Income / Expense (a)	Yield or Rate	Average Balance	Income / Expense (a)	Yield or Rate
	(dollars in thousands)								
Assets									
Interest-earning assets:									
Interest-bearing deposits with banks	$4,728	$12	0.25 %	$3,355	$7	0.21 %	$4,329	$6	0.14 %
Tax-free investment securities (e)	12,274	478	3.89	83	6	7.40	271	18	6.85
Taxable investment securities	1,352,494	30,662	2.27	1,300,538	30,218	2.32	1,179,169	31,799	2.70
Loans, net of unearned income (b)(c)	4,356,566	174,356	4.00	4,255,593	180,208	4.23	4,165,292	191,644	4.60
Total interest-earning assets	5,726,062	205,508	3.59	5,559,569	210,439	3.79	5,349,061	223,467	4.18
Noninterest-earning assets:									
Cash	71,139			71,930			75,044		
Allowance for credit losses	(54,517)			(62,800)			(65,279)		
Other assets	538,429			563,283			581,321		
Total noninterest-earning assets	555,051			572,413			591,086		
Total Assets	$6,281,113			$6,131,982			$5,940,147		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	$625,516	$192	0.03 %	$670,524	$236	0.04 %	$645,970	$286	0.04 %
Savings deposits (d)	1,876,972	2,348	0.13	1,942,323	2,962	0.15	1,921,417	4,233	0.22
Time deposits	1,028,053	9,913	0.96	1,154,984	12,398	1.07	1,138,112	16,935	1.49
Short-term borrowings	815,394	2,449	0.30	478,388	1,262	0.26	402,196	1,070	0.27
Long-term debt	200,114	3,599	1.80	233,483	4,849	2.08	202,598	7,622	3.76
Total interest-bearing liabilities	4,546,049	18,501	0.41	4,479,702	21,707	0.48	4,310,293	30,146	0.70

Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	964,422			876,111			810,041		
Other liabilities	51,347			48,335			50,859		
Shareholders' equity	719,295			727,834			768,954		
Total noninterest-bearing funding sources	1,735,064			1,652,280			1,629,854		
Total Liabilities and Shareholders' Equity	$6,281,113			$6,131,982			$5,940,147		
Net Interest Income and Net Yield on Interest-Earning Assets		$187,007	3.27 %		$188,732	3.39 %		$193,321	3.61 %

(a) Income on interest-earning assets has been computed on a fully taxable equivalent basis using the 35% federal income tax statutory rate.

(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.

(c) Loan income includes loan fees.

(d) Average balances do not include reallocations from noninterest-bearing demand deposits and interest-bearing demand deposits into savings deposits which were made for regulatory purposes.

(e) Yield on tax-free investment securities calculated using fully taxable equivalent interest income of $6.18 thousand and $18.58 thousand for the years ended December 31, 2013 and 2012, respectively.

Table of Contents

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

	Analysis of Year-to-Year Changes in Net Interest Income					
	2014 Change from 2013			2013 Change from 2012		
	Total Change	Change Due To Volume	Change Due To Rate (a)	Total Change	Change Due To Volume	Change Due To Rate (a)
	(dollars in thousands)					
Interest-earning assets:						
Interest-bearing deposits with banks	$5	$3	$2	$1	$(1)	$2
Tax-free investment securities	472	902	(430)	(12)	(13)	1
Taxable investment securities	444	1,205	(761)	(1,581)	3,277	(4,858)
Loans	(5,852)	4,271	(10,123)	(11,436)	4,154	(15,590)
Total interest income (b)	(4,931)	6,381	(11,312)	(13,028)	7,417	(20,445)
Interest-bearing liabilities:						
Interest-bearing demand deposits	(44)	(18)	(26)	(50)	10	(60)
Savings deposits	(614)	(98)	(516)	(1,271)	46	(1,317)
Time deposits	(2,485)	(1,358)	(1,127)	(4,537)	251	(4,788)
Short-term borrowings	1,187	876	311	192	206	(14)
Long-term debt	(1,250)	(694)	(556)	(2,773)	1,161	(3,934)
Total interest expense	(3,206)	(1,292)	(1,914)	(8,439)	1,674	(10,113)
Net interest income	$(1,725)	$7,673	$(9,398)	$(4,589)	$5,743	$(10,332)

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

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

Provision for Credit Losses

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

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

	2014		2013	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$15,141	135 %	$20,755	108 %
Real estate construction	(5,581)	(50)	(2,056)	(11)
Residential real estate	(1,560)	(14)	2,369	12
Commercial real estate	639	6	(286)	(1)
Loans to individuals	2,557	23	4,371	23
Unallocated	—	—	(5,926)	(31)

Total	$11,196	100	%	$19,227	100	%

The provision for credit losses for the year 2014 totaled $11.2 million, a decrease of $8.0 million, or 41.77%, compared to the year 2013. The majority of the 2014 provision expense, or $5.8 million, is attributable to specific reserves for an $8.2 million loan to an oil and gas servicing company, which was transferred to nonaccrual status during 2014. This loan was sold during the second quarter of 2014, resulting in a $5.8 million charge-off. Also impacting the provision expense for the commercial, financial and agricultural loan category were specific reserves related to a $4.2 million loan to an audio visual equipment distributor, which was transferred to nonaccrual status during 2014. Offsetting these increases in provision expense was the release of approximately $2.7 million in specific reserves related to the payoff of a $4.7 million nonaccrual loan to a local developer. The negative provision expense for real estate construction and residential real estate is the result of declines in both

the level of impaired loans and historical loss rates for these loan categories. Provision expense for loans to individuals is directly related to the level of charge-offs during 2014.

The majority of the 2013 provision expense related to two commercial borrowers. Deterioration in the value of certain assets of a local real estate developer, for which net equity is the expected repayment source, resulted in provision expense of $10.4 million and a related charge-off of $13.1 million. In addition, two nonaccrual commercial real estate loans that were sold in the first quarter of 2013 required a combined charge-off and related provision expense of $3.1 million. These two nonaccrual loans were to the same borrower and relate to a $15.5 million loan secured by an apartment building in eastern Pennsylvania and a $1.7 million loan secured by mixed use property in eastern Pennsylvania.

In 2013, the negative $5.9 million provision related to the unallocated portion of the allowance is a result of it no longer being treated as a separate component of the allowance. Instead, this risk is now incorporated into the reserve provided for each loan category. This portion of the allowance for credit losses reflects the qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experience.

The allowance for credit losses was $52.1 million, or 1.17%, of total loans outstanding at December 31, 2014, compared to $54.2 million, or 1.27%, at December 31, 2013. Nonperforming loans as a percentage of total loans decreased to 1.24% at December 31, 2014 from 1.39% at December 31, 2013. The allowance to nonperforming loan ratio was 94% as of December 31, 2014 and 91% at December 31, 2013.

Net credit losses were $13.4 million for the year-ended December 31, 2014 compared to $32.2 million for the same period in 2013. The most significant credit loss recognized during the year ended December 31, 2014, was the aforementioned $5.8 million charge-off to an oil and gas servicing company.

The provision is a result of management’s assessment of credit quality statistics and other factors that would have an impact on probable losses in the loan portfolio and the methodology used for determination of the adequacy of the allowance for credit losses. The change in the allowance for credit losses is consistent with the decrease in estimated losses within the loan portfolio determined by factors including certain loss events, portfolio migration analysis, loss emergence periods, historical loss experience, delinquency trends, deterioration in collateral values and volatility in economic indicators such as the housing market, consumer price index, vacancy rates and unemployment levels. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at December 31, 2014.

Table of Contents

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

	2014	2013	2012	2011	2010
	(dollars in thousands)				
Loans outstanding at end of year	$4,457,308	$4,283,833	$4,204,704	$4,057,055	$4,218,083
Average loans outstanding	$4,356,566	$4,255,593	$4,165,292	$4,061,822	$4,467,338
Balance, beginning of year	$54,225	$67,187	$61,234	$71,229	$81,639
Loans charged off:					
Commercial, financial, agricultural and other	8,911	18,399	5,207	7,114	22,293
Real estate construction	296	773	3,601	28,886	41,483
Residential real estate	3,153	1,814	3,828	4,107	5,226
Commercial real estate	1,148	10,513	851	24,861	2,466
Loans to individuals	3,964	3,679	3,482	3,325	3,841
Total loans charged off	17,472	35,178	16,969	68,293	75,309
Recoveries of loans previously charged off:					
Commercial, financial, agricultural and other	734	455	443	473	2,409
Real estate construction	1,340	501	582	955	—
Residential real estate	650	1,264	422	132	252
Commercial real estate	612	136	410	349	163
Loans to individuals	766	633	521	573	523
Total recoveries	4,102	2,989	2,378	2,482	3,347
Net credit losses	13,370	32,189	14,591	65,811	71,962
Provision charged to expense	11,196	19,227	20,544	55,816	61,552
Balance, end of year	$52,051	$54,225	$67,187	$61,234	$71,229
Ratios:					
Net credit losses as a percentage of average loans outstanding	0.31 %	0.76 %	0.35 %	1.62 %	1.61 %
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.17 %	1.27 %	1.60 %	1.51 %	1.69 %

Noninterest Income

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

	2014	2013	2012	2014 compared to 2013 $ Change	2014 compared to 2013 % Change
	(dollars in thousands)				
Noninterest Income:					
Trust income	$6,000	$6,166	$6,206	$(166)	(3)%
Service charges on deposit accounts	15,661	15,652	14,743	9	0
Insurance and retail brokerage commissions	6,483	6,005	6,272	478	8
Income from bank owned life insurance	5,502	5,539	5,850	(37)	(1)
Card related interchange income	14,222	13,746	13,199	476	3
Other income	7,445	12,060	14,365	(4,615)	(38)
Subtotal	55,313	59,168	60,635	(3,855)	(7)
Net securities gains (losses)	550	(1,158)	192	1,708	(147)

Gain on sale of assets	4,996	2,153	4,607	2,843	132	
Total noninterest income	$60,859	$60,163	$65,434	$696	1	%

Noninterest income, excluding net securities gains (losses) and gains on sale of assets, decreased $3.9 million, or 6.52%, in 2014, largely due to a decline in the other income category. The decrease in the other income category can be attributed to a $2.3 million decline in commercial loan swap-related income and a $1.1 million decrease in investment management income as a result of the sale of this business in the first quarter of 2014. The growth in insurance income can be attributed to increased

production and three months of income from our recent agency acquisition. Card-related interchange income can be attributed to growth in the number of deposit customers, as well as continued increases in electronic payments by our customers.
Total noninterest income increased $0.7 million, or 1%, in comparison to the year ended 2013. The most notable change includes a $2.8 million increase in the gain on sale of assets as a result of a $1.2 million gain recognized on the sale of the Company's registered investment advisory business and $3.2 million in gains on the sale of several OREO properties.
Comparing the year 2014 to the year 2013, net securities gains (losses) increased $1.7 million. This change is primarily the result of a $1.3 million loss recognized in 2013 on the early redemption of one of our pooled trust preferred securities. This security was called when the senior note holders elected to liquidate all assets of the trust, resulting in losses for the mezzanine notes owned by the Company. In 2014, a $0.5 million gain was recognized related to this security as a result of additional proceeds distributed as part of the final liquidation of the trust.
If the Company's total assets would equal or exceed $10 billion we would no longer qualify for exemption from the interchange fee cap included in the Dodd-Frank Act. The estimated impact of this change would decrease interchange income by $5.7 million.

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

				2014 Compared to 2013			
	2014	2013	2012	$ Change		% Change	
	(dollars in thousands)						
Noninterest Expense:							
Salaries and employee benefits	$87,223	$86,012	$86,069	$1,211		1	%
Net occupancy expense	13,119	13,607	13,255	(488	)	(4	)
Furniture and equipment expense	12,235	13,148	12,460	(913	)	(7	)
Data processing expense	6,124	6,009	7,054	115		2	
Advertising and promotion expense	2,953	3,129	4,157	(176	)	(6	)
Contributions	1,431	784	1,195	647		83	
Pennsylvania shares tax expense	3,776	5,638	5,706	(1,862	)	(33	)
Intangible amortization	631	1,064	1,467	(433	)	(41	)
Collection and repossession expense	2,754	3,836	5,756	(1,082	)	(28	)
Other professional fees and services	3,986	3,731	4,329	255		7	
FDIC insurance	4,054	4,366	5,032	(312	)	(7	)
Other operating expenses	17,178	19,144	18,966	(1,966	)	(10	)
Subtotal	155,464	160,468	165,446	(5,004	)	(3	)
Loss on sale or write-down of assets	1,595	1,054	7,394	541		51	
Litigation and operational losses	6,786	1,115	4,367	5,671		509	
Loss on early redemption of subordinated debt	—	1,629	—	(1,629	)	(100	)
Furniture and equipment expense - related to IT conversion	5,577	1,970	—	3,607		183	
Conversion related expenses	1,788	2,588	—	(800	)	(31	)
Total noninterest expense	$171,210	$168,824	$177,207	$2,386		1	%

Total noninterest expense for the year 2014 increased $2.4 million in comparison to the year 2013, largely due to an $8.6 million litigation reserve, $2.8 million in increased expenses related to the IT system conversion and increased contribution expense as a result of a $0.6 million charge related to the donation of a former headquarters building to a local university. Salaries and employee benefit expense increased $1.2 million, or 1%, due to normal merit increases, additional staffing added as part of the launch of our mortgage initiative and the acquisition of an insurance agency.

These increases were offset by declines of $1.9 million in Pennsylvania shares tax expense, $1.1 million in loan collection costs and a $3.0 million partial recovery for a 2012 external fraud loss.

Table of Contents

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

During the third quarter of 2014, First Commonwealth completed a system conversion to the Jack Henry and Associates SilverLake System core processing software and outsourced certain data processing services that had previously been performed in-house. As a result of this conversion, First Commonwealth incurred $11.9 million of charges, of which $7.4 million was recognized in 2014. During 2014, $5.6 million in accelerated depreciation and $1.8 million in other conversion related expenses were recognized. In 2013, conversion related expenses included $2.6 million for early termination charges on existing contracts and staffing and employment-related charges. The system conversion is expected to provide expense savings from pre-conversion levels of approximately $1.5 million to $1.7 million per quarter.

Income Tax

The provision for income taxes of $17.7 million in 2014 reflects an increase compared to the provision for income taxes of $15.3 million in 2013 mostly due to the increase in the level of pretax income of $62.1 million and $56.8 million for 2014 and 2013, respectively.

The effective tax rate was 28% and 27% for tax expense in 2014 and 2013, respectively. We ordinarily generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income.

Financial Condition

First Commonwealth's total assets increased by $145.4 million in 2014. Loans increased $173.5 million, or 4%, while investments decreased $8.5 million, or 1%.

Loan growth in 2014 was primarily in the commercial real estate and indirect lending categories. Impacting loan growth in 2014 was a decline of approximately $36.0 million in residential mortgage loans. During the third quarter of 2014, First Commonwealth reentered the residential mortgage business, after a strategic decision in 2005 to discontinue mortgage lending. Without this product offering, customer requests for these loans were satisfied through a joint venture or home equity loans. As a result, the residential mortgage portfolio has declined over the years due to regularly scheduled repayments and payoffs. The mortgage initiative is expected to increase loan volumes in this area and add revenue as loans are added to the portfolio or sold.

During 2014, approximately $242.9 million in investment securities were called or matured. These securities were higher yielding securities and contributed to the decline in yield earned on the portfolio. As a result, $246.1 million in asset-backed securities, $66.5 million in agency securities and $27.1 million in municipal securities were purchased in 2014 to help increase earnings from the portfolio with a reduced risk profile.

First Commonwealth's total liabilities increased $141.0 million, or 3%, in 2014. Deposits decreased $288.4 million, or 6%, and long-term debt decreased $54.9 million, or 25%, as funding needs were met with lower costing short-term borrowings, which increased $479.3 million, or 76%.

Total shareholders equity increased $4.4 million in 2014. Growth in shareholders equity due to net income of $44.5 million and increases in other comprehensive income of $16.1 million was partially offset by $26.2 million in dividends declared and $31.0 million in stock repurchases.

Table of Contents

Loan Portfolio

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

	2014		2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Commercial, financial, agricultural and other	$1,052,109	24 %	$1,021,056	24 %	$1,019,822	24 %	$996,739	25 %	$913,814	22 %
Real estate construction	120,785	3	93,289	2	87,438	2	76,564	2	261,482	6
Residential real estate	1,226,344	27	1,262,718	30	1,241,565	30	1,137,059	28	1,127,273	27
Commercial real estate	1,405,256	31	1,296,472	30	1,273,661	30	1,267,432	31	1,354,074	32
Loans to individuals	652,814	15	610,298	14	582,218	14	565,849	14	561,440	13
Total loans and leases net of unearned income	$4,457,308	100 %	$4,283,833	100 %	$4,204,704	100 %	$4,043,643	100 %	$4,218,083	100 %

The loan portfolio totaled $4.5 billion as of December 31, 2014, reflecting growth of $173.5 million, or 4%, compared to December 31, 2013. Loan growth was experienced in all categories except residential real estate, with the majority of the growth being recognized in commercial real estate loans and loans to individuals. Increases in commercial, financial, agricultural and other portfolio and commercial real estate can be attributed to growth in direct middle market lending and syndications in Pennsylvania and contiguous states. The increase in loans to individuals is primarily due to growth in indirect auto lending.

The majority of our loan portfolio is with borrowers located in Pennsylvania. During the fourth quarter of 2013, the Company expanded into the Ohio market area with the opening of a loan production office in Cleveland, Ohio. As of December 31, 2014 and 2013, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

The credit quality of the loan portfolio continued to improve during 2014 with decreases in the level of criticized assets, delinquency and nonaccrual loans. As of December 31, 2014, criticized loans (i.e., loans designated OAEM, substandard, impaired or doubtful) decreased $22.2 million, or 14%, from December 31, 2013. Criticized loans totaled $140.1 million at December 31, 2014 and represented 3% of the total loan portfolio. Additionally, delinquencies on accruing loans increased $5.7 million, or 44%, at December 31, 2014 compared to December 31, 2013. As of December 31, 2014, nonaccrual loans decreased $3.2 million, or 7%, compared to December 31, 2013.

Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans at December 31, 2014 were as follows:

	Within One Year	One to 5 Years	After 5 Years	Total
	(dollars in thousands)			
Commercial, financial, agricultural and other	$130,891	$750,143	$151,944	$1,032,978
Real estate construction (a)	6,887	85,730	28,116	120,733
Commercial real estate	91,124	431,066	882,283	1,404,473

Other	3,008	16,986	107,661	127,655
Totals	$231,910	$1,283,925	$1,170,004	$2,685,839
Loans at fixed interest rates		256,695	217,157	
Loans at variable interest rates		1,027,230	952,847	
Totals		$1,283,925	$1,170,004	

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

First Commonwealth has a regulatory established legal lending limit of $97.1 million to any one borrower or closely related group of borrowers, but has established lower thresholds for credit risk management.

Table of Contents

First Commonwealth defines exposure to the Oil and Gas Industry as any borrower who is involved in exploration and production, and any company in the industry supply chain that generates 40% or more of their sales revenue from exploration and production companies.

As of December 31, 2014, the Company had a total of $148.9 million in commitments to the Oil and Gas Industry, with $55.4 million in outstanding loan balances against those commitments. Of this total, commitments of $47.0 million with outstanding balances of $11.5 million are for exploration and production, while $101.9 million in commitments, with outstanding balances of $43.9 million, are related to ancillary businesses.

Two customers account for 74.4% of the loans related to exploration and production and both are rated pass credits. These credit facilities are primarily used to support letters of credit and have little or no usage. Two commercial relationships in this category, totaling $8.8 million, are on non-performing status and have been even before the oil price decline in the third quarter of 2014.

The ancillary business consists of well services, transportation, equipment and materials to support the oil and gas industry. Two customers, which account for 35.0% of the ancillary exposure, are bulk transporters of refined product and are not expected to be negatively impacted from lower oil prices. There are four pass rated credits, with total commitments of $40.3 million in the ancillary sector that will see some impact from reduced drilling activity due to lower oil and gas prices. The Company will continue to monitor their performance accordingly. One commercial relationship with $2.6 million in outstanding loans for an ancillary business has been on non-performing status since 2012.

Nonperforming Loans

Nonperforming loans include nonaccrual loans and restructured loans. Nonaccrual loans represent loans on which interest accruals have been discontinued. Restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower under terms not available in the market.

We discontinue interest accruals on a loan when, based on current information and events, it is probable that we will be unable to fully collect principal or interest due according to the contractual terms of the loan. A loan is typically placed in nonaccrual status when there is evidence of a significantly weakened financial condition or principal and interest is 90 days or more delinquent, except for consumer loans, which are placed in nonaccrual status at 150 days past due. Interest received on a nonaccrual loan is normally applied as a reduction to loan principal rather than interest income utilizing the cost recovery methodology of revenue recognition.

Nonperforming loans are closely monitored on an ongoing basis as part of our loan review and work-out process. The probable risk of loss on these loans is evaluated by comparing the loan balance to the fair value of any underlying collateral and the present value of projected future cash flows. Losses are recognized when a loss is probable and the amount is reasonably estimable.

Table of Contents

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

	2014	2013	2012	2011	2010
	(dollars in thousands)				
Nonperforming Loans:					
Loans on nonaccrual basis	$25,715	$28,908	$43,539	$33,635	$84,741
Loans held for sale on nonaccrual basis	—	—	—	13,412	—
Troubled debt restructured loans on nonaccrual basis	16,952	16,980	50,979	44,841	31,410
Troubled debt restructured loans on accrual basis	12,584	13,495	13,037	20,276	1,336
Total nonperforming loans	$55,251	$59,383	$107,555	$112,164	$117,487
Loans past due in excess of 90 days and still accruing	$2,619	$2,505	$2,447	$11,015	$13,203
Other real estate owned	$7,197	$11,728	$11,262	$30,035	$24,700
Loans outstanding at end of period	$4,457,308	$4,283,833	$4,204,704	$4,057,055	$4,218,083
Average loans outstanding	$4,356,566	$4,255,593	$4,165,292	$4,061,822	$4,467,338
Nonperforming loans as a percentage of total loans	1.24 %	1.39 %	2.56 %	2.76 %	2.79 %
Provision for credit losses	$11,196	$19,227	$20,544	$55,816	$61,552
Allowance for credit losses	$52,051	$54,225	$67,187	$61,234	$71,229
Net charge-offs	$13,370	$32,189	$14,591	$65,811	$71,962
Net charge-offs as a percentage of average loans outstanding	0.31 %	0.76 %	0.35 %	1.62 %	1.61 %
Provision for credit losses as a percentage of net charge-offs	83.74 %	59.73 %	140.80 %	84.81 %	85.53 %
Allowance for credit losses as a percentage of end-of-period loans outstanding (a)	1.17 %	1.27 %	1.60 %	1.51 %	1.69 %
Allowance for credit losses as a percentage of nonperforming loans (a)	94.21 %	91.31 %	62.47 %	62.01 %	60.63 %
Gross income that would have been recorded at original rates	$784	$7,920	$15,036	$14,872	$13,142
Interest that was reflected in income	—	679	369	1,393	30
Net reduction to interest income due to nonaccrual	$784	$7,241	$14,667	$13,479	$13,112

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

Nonperforming loans decreased $4.1 million to $55.3 million at December 31, 2014, compared to $59.4 million at December 31, 2013. The nonperforming loans as a percentage of total loans decreased to 1.2% from 1.4% at December 31, 2014 compared to December 31, 2013. Other real estate owned totaled $7.2 million at December 31, 2014, compared to $11.7 million at December 31, 2013.

Also included in nonperforming loans are troubled debt restructured loans (“TDR’s”). TDR’s are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating

financial position of the borrower under terms not available in the market. TDR's decreased $0.9 million during 2014. For additional information on TDR’s please refer to Note 10 “Loans and Allowance for Credit Losses.”
Net credit losses were $13.4 million in 2014 compared to $32.2 million for the year 2013. The most significant credit loss recognized during the year was a $5.8 million charge-off taken on a loan to an oil and gas servicing company. Additional detail on credit risk is included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under “Provision for Credit Losses" and "Allowance for Credit Losses."
Provision for credit losses as a percentage of net charge-offs increased to 83.7% for the year ended December 31, 2014 from 59.7% for the year ended December 31, 2013.

Table of Contents

Nonperforming Securities

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

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
	(dollars in thousands)				
Nonperforming Securities:					
Nonaccrual securities at market value	$—	$—	$—	$—	$15,823

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

Allowance for Credit Losses

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

	2014 Allowance Amount	% (a)	2013 Allowance Amount	% (a)	2012 Allowance Amount	% (a)	2011 Allowance Amount	% (a)	2010 Allowance Amount	% (a)
	(dollars in thousands)									
Commercial, financial, agricultural and other	$29,627	24 %	$22,663	24 %	$19,852	24 %	$18,200	25 %	$21,700	22 %
Real estate construction	2,063	3	6,600	2	8,928	2	6,756	2	18,002	6
Residential real estate	3,664	27	7,727	30	5,908	30	8,237	28	5,454	27
Commercial real estate	11,881	31	11,778	30	22,441	30	18,961	31	16,913	32
Loans to individuals	4,816	15	5,457	14	4,132	14	4,244	14	4,215	13
Unallocated	—	N/A	—	N/A	5,926	N/A	4,836	N/A	4,945	N/A
Total	$52,051		$54,225		$67,187		$61,234		$71,229	
Allowance for credit losses as percentage of end-of-period loans outstanding	1.17 %		1.27 %		1.60 %		1.51 %		1.69 %	

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

The allowance for credit losses decreased $2.2 million from December 31, 2013 to December 31, 2014. The allowance for credit losses as a percentage of end-of-period loans outstanding was 1.2% at December 31, 2014 compared to 1.3% at December 31, 2013. The allowance for credit losses includes both a general reserve for performing loans and specific reserves for impaired loans. Comparing December 31, 2014 to December 31, 2013, the general reserve for performing loans decreased from 1.07% to 0.96% of total performing loans. Specific reserves increased from 16.8% of nonperforming loans at December 31, 2013 to 19.5% of nonperforming loans at December 31, 2014. The allowance for credit losses as a percentage of nonperforming loans was 94% and 91% at

December 31, 2014 and 2013, respectively.

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

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

Table of Contents

Investment Portfolio

Marketable securities that we hold in our investment portfolio, which are classified as "securities available for sale," may be a source of liquidity; however, we do not anticipate liquidating the investments prior to maturity. As indicated in Note 19 "Fair Values of Assets and Liabilities," $30.4 million of available for sale securities at December 31, 2014, are classified as Level 3 assets because of inactivity in the market.

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

	2014	2013	2012
	(dollars in thousands)		
Obligations of U.S. Government Agencies:			
Mortgage-Backed Securities—Residential	$23,344	$22,639	$27,883
Obligations of U.S. Government-Sponsored Enterprises:			
Mortgage-Backed Securities—Residential	947,635	1,009,519	839,102
Mortgage-Backed Securities—Commercial	72	104	148
Other Government-Sponsored Enterprises	269,181	267,971	241,970
Obligations of States and Political Subdivisions	27,058	80	82
Corporate Securities	6,682	6,693	6,703
Pooled Trust Preferred Collateralized Debt Obligations	41,926	42,040	51,866
Total Debt Securities	1,315,898	1,349,046	1,167,754
Equities	1,420	1,420	1,859
Total Securities Available for Sale	$1,317,318	$1,350,466	$1,169,613

As of December 31, 2014, securities available for sale had a fair value of $1.3 billion. Gross unrealized gains were $16.9 million and gross unrealized losses were $24.4 million.

The following is a schedule of the contractual maturity distribution of securities available for sale at December 31, 2014.

	U.S. Government Agencies and Corporations	States and Political Subdivisions	Other Securities	Total Amortized Cost (a)	Weighted Average Yield (b)	
	(dollars in thousands)					
Within 1 year	$3,000	$—	$—	$3,000	0.32	%
After 1 but within 5 years	288,556	—	—	288,556	1.19	
After 5 but within 10 years	39,504	21,849	—	61,353	4.09	
After 10 years	909,172	5,209	48,608	962,989	2.34	
Total	$1,240,232	$27,058	$48,608	$1,315,898	2.16	%

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

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

The amortized cost of the investment portfolio decreased $33.1 million, or 2%, at December 31, 2014 compared to 2013. All categories of investments decreased, except for Obligations of State and Political Subdivisions which increased $27.0 million. These securities were purchased in an effort to increase the earnings from investments while keeping the risk of the portfolio at a lower level.

Our investment portfolio includes an amortized cost of $41.9 million in pooled trust preferred collateralized debt obligations at December 31, 2014. The valuation of these securities involves evaluating relevant credit and structural

aspects, determining appropriate performance assumptions and performing a discounted cash flow analysis.

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

Table of Contents

Deposits

Total deposits decreased $288.4 million, or 6%, in 2014, primarily due to the run off of time deposits of $253.4 million. The change in time deposits can be attributed to an decrease of $101.2 million in deposits generated from the Certificate of Deposit Account Registry Services program ("CDARS"), which provides a low cost alternative funding source.

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

	2014			2013			2012		
	Amount	%		Amount	%		Amount	%	
	(dollars in thousands)								
3 months or less	$164,879	49	%	$234,295	51	%	$103,102	32	%
Over 3 months through 6 months	34,874	10		85,573	18		58,680	18	
Over 6 months through 12 months	72,470	22		60,739	13		31,863	10	
Over 12 months	61,765	19		84,077	18		128,798	40	
Total	$333,988	100	%	$464,684	100	%	$322,443	100	%

Short-Term Borrowings and Long-Term Debt

Short-term borrowings increased $479.3 million, or 76%, from $626.6 million as of December 31, 2013 to $1,105.9 million at December 31, 2014. Long-term debt decreased $54.9 million, or 25%, from $216.6 million at December 31, 2013 to $161.6 million at December 31, 2014. The change in both of these areas was to take advantage of attractive interest rates in the wholesale funding markets as an alternative to certificates of deposit while paying off higher costing debt. For additional information concerning our short-term borrowings, subordinated debentures and other long-term debt, please refer to Note 16 “Short-term Borrowings,” Note 17 “Subordinated Debentures” and Note 18 “Other Long-term Debt” of the Consolidated Financial Statements.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below sets forth our contractual obligations to make future payments as of December 31, 2014. For a more detailed description of each category of obligation, refer to the note in our Consolidated Financial Statements indicated in the table below.

	Footnote Number Reference	1 Year or Less	After 1 But Within 3 Years	After 3 But Within 5 Years	After 5 Years	Total
	(dollars in thousands)					
FHLB advances	18	$80,142	$1,148	$1,238	$6,931	$89,459
Subordinated debentures	17	—	—	—	72,167	72,167
Operating leases	13	3,313	5,727	4,912	12,276	26,228
Total contractual obligations		$83,455	$6,875	$6,150	$91,374	$187,854

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

In addition, see Note 12 “Commitments and Letters of Credit” for detail related to our off-balance sheet commitments to extend credit, financial standby letters of credit, performance standby letters of credit and commercial letters of credit as of December 31, 2014. Commitments to extend credit, standby letters of credit and commercial letters of credit do not necessarily represent future cash requirements since it is unknown if the borrower will draw upon these

commitments and often these commitments expire without being drawn upon. As of December 31, 2014, a reserve for probable losses of $3.1 million was recorded for unused commitments and letters of credit.

Liquidity

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. Liquidity risk arises from the possibility that we may not be able to meet our financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk,

Table of Contents

our Board of Directors has established a Liquidity Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on limits approved by our Board of Directors. This policy designates our Asset/Liability Committee ("ALCO") as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our Treasury Department who monitors it by using such measures as liquidity coverage ratios, liquidity gap ratios and noncore funding ratios.

We generate funds to meet our cash flow needs primarily through the core deposit base of FCB and the maturity or repayment of loans and other interest-earning assets, including investments. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is sometimes influenced by factors outside of management's control, such as the level of short-term and long-term market interest rates and yields offered on competing investments, such as money market mutual funds. Deposits decreased $288.4 million, or 6%, during 2014, and comprised 76% of total liabilities at December 31, 2014, as compared to 84% at December 31, 2013. Proceeds from the maturity and redemption of investment securities totaled $242.9 million during 2014 and provided liquidity to fund loans as well as the purchase of additional investment securities.

We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the Federal Home Loan Bank of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank of Cleveland and access to certificates of deposit through brokers. We have increased our borrowing capacity at the Federal Reserve by establishing a Borrower-in-Custody of Collateral arrangement that enables us to pledge certain loans, not being used as collateral at the Federal Home Loan Bank, as collateral for borrowings at the Federal Reserve. At December 31, 2014 our borrowing capacity at the Federal Reserve related to this program was $667.7 million and there were no amounts outstanding. Additionally, as of December 31, 2014, our maximum borrowing capacity at the Federal Home Loan Bank of Pittsburgh was $1.5 billion and as of that date amounts used against this capacity included $1.0 billion in outstanding borrowings and $28.2 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

We participate in the Certificate of Deposit Account Registry Services ("CDARS") program as part of an ALCO strategy to increase and diversify funding sources. As of December 31, 2014, our maximum borrowing capacity under this program was $951.4 million and as of that date there was $150.0 million outstanding. We also participate in a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of December 31, 2014, our outstanding certificates of deposits from this program have an average weighted rate of 0.29% and an average original term of 39 days.

We also have available unused federal funds lines with four correspondent banks. These lines have an aggregate commitment of $170.0 million with $9.0 million outstanding as of December 31, 2014.

The liquidity needs of First Commonwealth on an unconsolidated basis (the "Parent Company") consist primarily of operating expenses, debt service payments and dividend payments to our stockholders, which totaled $35.3 million for the year ended December 31, 2014, as well as any cash necessary to repurchase our shares, which totaled $31.0 million for the year ended December 31, 2014. The primary source of liquidity for the Parent Company is dividends from subsidiaries. The Parent Company had $72.2 million in junior subordinated debentures and cash and interest-bearing deposits of $10.4 million at December 31, 2014. At the end of 2014 the Parent Company had a $15.0 million short-term, unsecured revolving line of credit with another financial institution. As of December 31, 2014, there were no amounts outstanding under this line. We are currently not meeting a debt covenant with respect to this line of credit related to Return on Average Assets; however, a waiver has been received from the lender for this covenant. The Parent Company has the ability to enhance its liquidity position by raising capital or incurring debt. Refer to "Financial Condition" above for additional information concerning our deposits, loan portfolio, investment securities and borrowings.

Market Risk

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

Table of Contents

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

We use an asset/liability model to measure our interest rate risk. Interest rate risk measures include earnings simulation and gap analysis. Gap analysis is a static measure that does not incorporate assumptions regarding future events. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. Under simulation analysis, our current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. Our net interest income simulations assume a level balance sheet whereby new volume equals run-off. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios. Reviewing these various measures provides us with a reasonably comprehensive view of our interest rate profile.
The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate sensitive assets to rate sensitive liabilities repricing within a one year period was 0.69 and 0.71 at December 31, 2014 and 2013, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months. The level of First Commonwealh's ratio is largely driven by the modeling of interest-bearing nonmaturity deposits, which are included in the analysis as repricing within one year.
Following is the gap analysis as of December 31:

	2014					
	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	$2,274,687	$166,818	$294,772	$2,736,277	$1,412,835	$267,876
Investments	52,057	60,708	125,801	238,566	767,521	338,182
Other interest-earning assets	2,262	—	—	2,262	—	—
Total interest-sensitive assets (ISA)	2,329,006	227,526	420,573	2,977,105	2,180,356	606,058
Certificates of deposit	278,659	114,932	193,346	586,937	251,153	4,255
Other deposits	2,484,139	—	—	2,484,139	—	—
Borrowings	1,203,176	25,135	29,873	1,258,184	2,385	6,931
Total interest-sensitive liabilities (ISL)	3,965,974	140,067	223,219	4,329,260	253,538	11,186
Gap	$(1,636,968)	$87,459	$197,354	$(1,352,155)	$1,926,818	$594,872
ISA/ISL	0.59	1.62	1.88	0.69	8.60	54.18
Gap/Total assets	25.74 %	1.38 %	3.10 %	21.26 %	30.29 %	9.35 %

Table of Contents

	2013					
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Over 1 Year Through 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	$2,026,232	$215,614	$310,437	$2,552,283	$1,401,095	$282,761
Investments	106,382	54,440	209,855	370,677	586,363	387,180
Other interest-earning assets	3,012	—	—	3,012	—	—
Total interest-sensitive assets (ISA)	2,135,626	270,054	520,292	2,925,972	1,987,458	669,941
Certificates of deposit	373,426	146,037	231,283	750,746	338,488	6,488
Other deposits	2,595,780	—	—	2,595,780	—	—
Borrowings	698,899	7,595	50,179	756,673	81,192	5,302
Total interest-sensitive liabilities (ISL)	3,668,105	153,632	281,462	4,103,199	419,680	11,790
Gap	$(1,532,479)	$116,422	$238,830	$(1,177,227)	$1,567,778	$658,151
ISA/ISL	0.58	1.76	1.85	0.71	4.74	56.82
Gap/Total assets	24.66 %	1.87 %	3.84 %	18.94 %	25.23 %	10.59 %

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. A lower level of rate sensitive assets to rate sensitive liabilities repricing in one year could indicate reduced net interest income in a rising interest rate scenario, and conversely, increased net interest income in a declining interest rate scenario. However, the gap analysis incorporates only the level of interest-earning assets and interest-bearing liabilities and not the sensitivity each has to changes in interest rates. The impact of the sensitivity to changes in interest rates is provided in the table below the gap analysis.
The following table presents an analysis of the potential sensitivity of our annual net interest income to gradual changes in interest rates over a 12 month time frame versus if rates remained unchanged utilizing a flat balance sheet.

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
December 31, 2014	$(5,280)	$(1,414)	$211	$869
December 31, 2013	(8,878)	(4,355)	(833)	(646)

The following table represents the potential sensitivity of our annual net interest income to immediate changes in interest rates versus if rates remained unchanged utilizing a flat balance sheet.

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
December 31, 2014	$(11,925)	$(6,532)	$577	$1,511

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current unprecedented low interest rate environment. Results of the 100 and 200 basis point decline in interest rate scenario 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. For the years 2014 and 2013, the cost of our interest-bearing liabilities averaged 0.41% and 0.48%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.59% and 3.79%, 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 that certain assumptions be made, such as prepayment rates on earning assets and the pricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon our

experience, business plans and published industry experience. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will approximate actual results.

Credit Risk

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

First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual impaired loans with a balance greater than $0.1 million, loss experience trends, delinquency and other relevant factors.

First Commonwealth also maintains a reserve for unfunded loan commitments and letters of credit based upon credit risk and probability of funding. The reserve totaled $3.1 million at December 31, 2014, and is classified in "Other liabilities" on the Consolidated Statements of Financial Condition.

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructured loans. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternate financing sources. In 2014, 77 loans totaling $22.6 million were identified as troubled debt restructurings, resulting in specific reserves of $4.7 million.

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

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

The allowance for credit losses was $52.1 million at December 31, 2014 or 1.17% of loans outstanding, compared to $54.2 million or 1.27% of loans outstanding at December 31, 2013. The decrease in the 2014 ratio compared to the 2013 ratio can be primarily attributed to declines in the historical loss experience. In addition, as of December 31, 2014, several credit measures showed improvement compared to December 31, 2013. The level of criticized loans decreased $22.2 million from $162.4 million at December 31, 2013 to $140.1 million at December 31, 2014 and the level of nonperforming loans decreased $4.1 million for the same period.

The allowance for credit losses as a percentage of nonperforming loans was 94% at December 31, 2014 and 91% as of December 31, 2013. The allowance for credit losses includes specific allocations of $9.5 million related to nonperforming loans covering 17% of the total nonperforming balance at December 31, 2014 and specific allocations of $8.8 million covering 15% of the total nonperforming balance at December 31, 2013. The amount of allowance related to nonperforming loans was determined by using estimated fair values obtained from current appraisals and updated discounted cash flow analyses.

Management believes that the allowance for credit losses is at a level that is sufficient to absorb losses inherent in the loan portfolio at December 31, 2014.

Table of Contents

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

	For the Period Ended December 31, 2014			As of December 31, 2014		
	Net Charge-offs	% of Total Net Charge-offs	Net Charge-offs as a % of Average Loans	Nonperforming Loans	% of Total Nonperforming Loans	Nonperforming Loans as a % of Total Loans
	(dollars in thousands)					
Commercial, financial, agricultural and other	$8,177	61.16 %	0.19 %	$34,265	62.02 %	0.77 %
Real estate construction	(1,044)	(7.81)	(0.02)	236	0.43	0.01
Residential real estate	2,503	18.72	0.06	11,140	20.16	0.24
Commercial real estate	536	4.01	0.01	9,322	16.87	0.21
Loans to individuals	3,198	23.92	0.07	288	0.52	0.01
Total loans, net of unearned income	$13,370	100.00 %	0.31 %	$55,251	100.00 %	1.24 %

As the above table illustrates, commercial real estate and commercial financial, agricultural and other loan categories were the most significant portions of the nonperforming loans as of December 31, 2014. See discussions related to the provision for credit losses and loans for more information.

Results of Operations—2013 Compared to 2012

Summary of 2013 Results

Net income for 2013 was $41.5 million, or $0.43 per diluted share, as compared to a net income of $42.0 million, or $0.40 per diluted share, in 2012. The improvement in performance in 2013 was primarily the result of a $1.3 million decrease in provision expenses, a decrease of $6.3 million related to loss on sale or write-down of assets, and a $4.3 million decrease in net interest income. Partially offsetting the aforementioned items are a $1.4 million decrease in net securities gains and a $3.3 million decrease in operational losses.

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

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

Net interest income, on a fully taxable equivalent basis, for 2013 was $4.6 million, or 2%, lower than 2012, primarily due to a $169.4 million, or 4%, increase in average interest bearing liabilities and a 22 basis point decrease in the net interest margin. Positively affecting net interest income in 2013 was a $41.1 million increase in average net free funds. Average net free funds are the excess of demand deposits, other noninterest-bearing liabilities and shareholders' equity over nonearning assets. Net interest margin, on a fully taxable equivalent basis was 3.39% in 2013 compared to 3.61% in 2012.

During the year-ended December 31, 2013, the net interest margin was challenged by the continuing low interest rate environment and decreasing rates earned on interest-earning assets. Despite a disciplined approach to pricing, runoff of existing assets earning higher interest rates continued to provide for lower yields on earning assets. Growth in earning assets helped offset the impact of runoff as average interest-earning assets increased $210.5 million, or 4%, compared to the comparable period in 2012.

The taxable equivalent yield on interest-earning assets was 3.79% for the year-ended December 31, 2013, a decrease of 39 basis points from the 4.18% yield for the same period in 2012. This decline was attributed to the repricing of our variable rate assets in a low rate environment as well as lower interest rates available on new investments and loans. Reductions in the cost of interest-bearing liabilities partially offset the impact of lower yields on interest-earning assets. The cost of interest-bearing liabilities was 0.48% for the year-ended December 31, 2013, compared to 0.70% for the same period in 2012.

Comparing the year-ended December 31, 2013 with the same period in 2012, changes in interest rates negatively impacted net interest income by $10.3 million. The lower yield on interest-earning assets adversely impacted net interest income by $20.4 million, while the decline in the cost of interest-bearing liabilities positively impacted net interest income by $10.1 million. We were able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposits and borrowed funds, disciplined pricing strategies, loan growth and increasing our investment volumes within established interest rate risk management guidelines.

Table of Contents

While decreases in interest rates and yields compressed the net interest margin, increases in average earning assets and low cost average interest-bearing liabilities neutralized the effect on net interest income. Changes in volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $5.7 million in the year-ended December 31, 2013 compared to the same period in 2012. Higher levels of interest-earning assets resulted in an increase of $7.4 million in interest income, while volume changes primarily attributed to the mix of deposits reduced interest expense by $1.7 million.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2014	2013
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$72,276	$74,427
Interest-bearing bank deposits	2,262	3,012
Securities available for sale, at fair value	1,309,819	1,318,365
Other investments	44,545	35,444
Loans held for sale	2,502	—
Loans:		
Portfolio loans	4,457,308	4,283,833
Allowance for credit losses	(52,051)	(54,225)
Net loans	4,405,257	4,229,608
Premises and equipment, net	64,989	67,940
Other real estate owned	7,197	11,728
Goodwill	161,429	159,956
Amortizing intangibles, net	1,665	1,311
Bank owned life insurance	177,567	174,372
Other assets	110,777	138,698
Total assets	$6,360,285	$6,214,861
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$989,027	$912,361
Interest-bearing	3,326,484	3,691,502
Total deposits	4,315,511	4,603,863
Short-term borrowings	1,105,876	626,615
Subordinated debentures	72,167	72,167
Other long-term debt	89,459	144,385
Total long-term debt	161,626	216,552
Other liabilities	61,127	56,134
Total liabilities	5,644,140	5,503,164
Shareholders’ Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	—	—
Common stock, $1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued as of December 31, 2014 and 2013; and 91,723,028 shares and 95,245,215 shares outstanding at December 31, 2014 and 2013, respectively	105,563	105,563
Additional paid-in capital	365,615	365,333
Retained earnings	353,027	334,748
Accumulated other comprehensive (loss) income, net	(4,499)	(20,588)
Treasury stock (13,840,427 and 10,318,240 shares at December 31, 2014 and 2013, respectively)	(103,561)	(73,359)
Total shareholders’ equity	716,145	711,697
Total liabilities and shareholders’ equity	$6,360,285	$6,214,861

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except share data)		
Interest Income			
Interest and fees on loans	$171,196	$176,129	$187,258
Interest and dividends on investments:			
Taxable interest	28,767	29,916	31,695
Interest exempt from federal income taxes	311	4	12
Dividends	1,895	302	104
Interest on bank deposits	12	7	6
Total interest income	202,181	206,358	219,075
Interest Expense			
Interest on deposits	12,453	15,596	21,454
Interest on short-term borrowings	2,449	1,262	1,070
Interest on subordinated debentures	2,292	3,128	5,684
Interest on other long-term debt	1,307	1,721	1,938
Total interest expense	18,501	21,707	30,146
Net Interest Income	183,680	184,651	188,929
Provision for credit losses	11,196	19,227	20,544
Net Interest Income after Provision for Credit Losses	172,484	165,424	168,385
Noninterest Income			
Net securities gains (losses)	550	(1,158)	192
Trust income	6,000	6,166	6,206
Service charges on deposit accounts	15,661	15,652	14,743
Insurance and retail brokerage commissions	6,483	6,005	6,272
Income from bank owned life insurance	5,502	5,539	5,850
Gain on sale of assets	4,996	2,153	4,607
Card related interchange income	14,222	13,746	13,199
Other income	7,445	12,060	14,365
Total noninterest income	60,859	60,163	65,434
Noninterest Expense			
Salaries and employee benefits	87,223	86,012	86,069
Net occupancy expense	13,119	13,607	13,255
Furniture and equipment expense	17,812	15,118	12,460
Data processing expense	6,124	6,009	7,054
Advertising and promotion expense	2,953	3,129	4,157
Contributions	1,431	784	1,195
Pennsylvania shares tax expense	3,776	5,638	5,706
Intangible amortization	631	1,064	1,467
Collection and repossession expense	2,754	3,836	5,756
Other professional fees and services	3,986	3,731	4,329
FDIC insurance	4,054	4,366	5,032
Loss on sale or write-down of assets	1,595	1,054	7,394
Litigation and operational losses	6,786	1,115	4,367
Loss on early redemption of subordinated debt	—	1,629	—
Conversion related expenses	1,788	2,588	—
Other operating expenses	17,178	19,144	18,966

Total noninterest expense	171,210	168,824	177,207
Income before income taxes	62,133	56,763	56,612
Income tax provision	17,680	15,281	14,658
Net Income	$44,453	$41,482	$41,954
Average Shares Outstanding	93,114,654	97,028,157	103,885,396
Average Shares Outstanding Assuming Dilution	93,114,654	97,029,832	103,885,663
Per Share Data:			
Basic Earnings Per Share	$0.48	$0.43	$0.40
Diluted Earnings Per Share	$0.48	$0.43	$0.40
Cash Dividends Declared per Common Share	$0.28	$0.23	$0.18

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Net Income	$44,453	$41,482	$41,954
Other comprehensive income (loss), before tax expense (benefit):			
Unrealized holding gains (losses) on securities arising during the period	25,153	(34,975)	(661)
Less: reclassification adjustment for (gains) losses on securities included in net income	(550)	1,158	(192)
Unrealized gains on derivatives:			
Unrealized holding gains on derivatives arising during the period	472	—	—
Reclassification adjustment for gains on derivatives included in net income	(10)	—	—
Unrealized (losses) gains for postretirement obligations:			
Transition obligation	—	—	2
Net (loss) gain	(313)	219	(300)
Total other comprehensive income (loss), before tax expense (benefit)	24,752	(33,598)	(1,151)
Income tax expense (benefit) related to items of other comprehensive income (loss)	8,663	(11,751)	(409)
Comprehensive Income	$60,542	$19,635	$41,212

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

Table of Contents

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

	Shares Outstanding	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
	(dollars in thousands, except per share data)						
Balance at December 31, 2013	95,245,215	$105,563	$365,333	$334,748	$ (20,588)	$(73,359)	$711,697
Net income				44,453			44,453
Total other comprehensive income					16,089		16,089
Cash dividends declared ($0.28 per share)				(26,174)			(26,174)
Discount on dividend reinvestment plan purchases			(65)				(65)
Treasury stock acquired	(3,636,634)					(30,956)	(30,956)
Treasury stock reissued	21,960		35	—		157	192
Restricted stock	92,487	—	312	—		597	909
Balance at December 31, 2014	91,723,028	$105,563	$365,615	$353,027	$ (4,499)	$(103,561)	$716,145

	Shares Outstanding	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Total Shareholders' Equity
	(dollars in thousands, except per share data)						
Balance at December 31, 2012	99,629,494	$105,563	$365,354	$315,608	$ 1,259	$(41,777)	$746,007
Net income				41,482			41,482
Total other comprehensive loss					(21,847)		(21,847)
Cash dividends declared ($0.23 per share)				(22,344)			(22,344)
Discount on dividend reinvestment plan purchases			(112)				(112)
Treasury stock acquired	(4,462,638)					(32,217)	(32,217)
Treasury stock reissued	25,359		—	—		176	176
Restricted stock	53,000	—	91	2		459	552
Balance at December 31, 2013	95,245,215	$105,563	$365,333	$334,748	$ (20,588)	$(73,359)	$711,697

	Shares Outstanding	Common Stock	Additional Paid-in-	Retained Earnings	Accumulated Other	Treasury Stock	Unearned ESOP	Total Shareholders'

			Capital		Comprehensive Income (Loss), net		Shares	Equity
	(dollars in thousands, except per share data)							
Balance at December 31, 2011	104,916,994	$105,563	$365,868	$294,056	$2,001	$(7,345)	$(1,600)	$758,543
Net income				41,954				41,954
Total other comprehensive loss					(742)			(742)
Cash dividends declared ($0.18 per share)				(18,759)				(18,759)
Net decrease in unearned ESOP shares							1,600	1,600
ESOP market value adjustment ($729, net of $255 tax benefit)			(474)					(474)
Discount on dividend reinvestment plan purchases			(92)					(92)
Tax benefit of stock options exercised			1					1
Treasury stock acquired	(5,662,700)					(37,464)		(37,464)
Treasury stock reissued	155,200		—	(379)		1,407		1,028
Restricted stock	220,000	—	51	(1,264)		1,625		412
Balance at December 31, 2012	99,629,494	$105,563	$365,354	$315,608	$1,259	$(41,777)	$—	$746,007

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Operating Activities			
Net income	$44,453	$41,482	$41,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	11,196	19,227	20,544
Deferred tax expense	4,862	12,704	2,551
Depreciation and amortization	13,721	11,090	7,912
Net losses on securities and other assets	2,832	431	1,838
Net amortization of premiums and discounts on securities	2,233	543	1,381
Net amortization of premiums and discounts on long-term debt	(37)	(117)	(113)
Income from increase in cash surrender value of bank owned life insurance	(5,275)	(5,539)	(5,850)
Mortgage loans originated for sale	(17,697)	—	—
Proceeds from sale of mortgage loans	15,598	—	—
Decrease in interest receivable	542	921	2,689
Decrease in interest payable	(404)	(1,172)	(1,280)
Decrease in prepaid FDIC insurance	—	9,205	4,693
Decrease (increase) in income taxes payable	1,860	(615)	6,484
Other—net	8,253	(2,426)	(4,079)
Net cash provided by operating activities	82,137	85,734	78,724
Investing Activities			
Transactions with securities available for sale:			
Proceeds from sales	132,868	671	—
Proceeds from maturities and redemptions	242,895	356,667	574,846
Purchases	(339,649)	(539,894)	(605,435)
Purchases of FHLB stock	(40,920)	(18,120)	—
Proceeds from the redemption of FHLB stock	31,819	10,904	11,568
Proceeds from bank owned life insurance	2,080	2,092	2,501
Proceeds from the sale of loans	3,112	20,760	15,981
Proceeds from sales of other assets	12,882	12,713	17,660
Acquisition, net of cash acquired	(3,042)	—	—
Net increase in loans	(195,120)	(143,438)	(178,321)
Purchases of premises and equipment	(10,980)	(9,635)	(10,182)
Net cash used in investing activities	(164,055)	(307,280)	(171,382)
Financing Activities			
Net decrease in federal funds purchased	(7,000)	(18,000)	(41,300)
Net increase in other short-term borrowings	486,261	288,387	84,750
Net (decrease) increase in deposits	(288,352)	46,006	53,256
Repayments of other long-term debt	(59,889)	(29,969)	(25,480)
Proceeds from issuance of long-term debt	5,000	—	100,000
Repayments of subordinated debentures	—	(34,702)	—
Discount on dividend reinvestment plan purchases	(65)	(112)	(92)
Dividends paid	(26,174)	(22,344)	(18,759)
Proceeds from reissuance of treasury stock	192	176	1,028

Purchase of treasury stock	(30,956)	(33,439)	(36,242)
Stock option tax benefit	—	—	1
Net cash provided by financing activities	79,017	196,003	117,162
Net (decrease) increase in cash and cash equivalents	(2,901)	(25,543)	24,504
Cash and cash equivalents at January 1	77,439	102,982	78,478
Cash and cash equivalents at December 31	$74,538	$77,439	$102,982

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

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Statement of Accounting Policies

General

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

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

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

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

Basis of Presentation

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

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

First Commonwealth's variable interest entities ("VIEs") are evaluated under the guidance included in ASU 2009-17. These VIEs include qualified affordable housing projects that First Commonwealth has invested in as part of its community reinvestment initiatives and vehicles that issue trust preferred securities. We periodically assess whether or not our variable interests in these VIEs, based on qualitative analysis, provide us with a controlling interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. We do not have a controlling financial interest in the VIE, which would require consolidation of the VIE, as we do not have the following characteristics: (1) the power to direct the activities that most significantly impact the VIE's economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Securities

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

First Commonwealth has securities classified as available for sale and does not engage in trading activities. First Commonwealth utilizes the specific identification method to determine the net gain or loss on debt securities and the average cost method to determine the net gain or loss on the equity securities.

First Commonwealth conducts a comprehensive review of the investment portfolio on a quarterly basis to determine whether other-than-temporary impairment has occurred. Issuer-specific securities whose market values have fallen below their book values are initially selected for more in-depth analysis based on the percentage decline in value and duration of the decline. Issuer-specific securities include obligations of U.S. Government agencies and sponsored enterprises, single issue trust preferred securities, corporate debentures and obligations of states and political

subdivisions. Further analysis of these securities includes a review of research reports, analysts' recommendations, credit rating changes, news stories, annual reports, impact of interest rate changes and any other relevant information pertaining to the affected security. Pooled trust preferred collateralized debt obligations are measured by evaluating all relevant credit and structural aspects, determining appropriate performance

Table of Contents

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

Loans

Loans are carried at the principal amount outstanding. Interest is accrued as earned. Loans held for sale are carried at the lower of cost or fair value determined on an individual basis.

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

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

First Commonwealth considers a loan to be a troubled debt restructured loan when the loan terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources.

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

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

Loan Fees

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

Other Real Estate Owned

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

estate owned properties.

Table of Contents

Allowance for Credit Losses

First Commonwealth maintains an allowance for credit losses at a level deemed sufficient to absorb losses that are inherent in the loan portfolio. First Commonwealth's management determines and reviews with the Board of Directors the adequacy of the allowance on a quarterly basis to ensure that the provision for credit losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses. First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual problem loans, delinquency and loss experience trends, and other relevant factors, all of which may be susceptible to significant changes.

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

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

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

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

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

Allowance for Off-Balance Sheet Credit Exposures

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

Bank Owned Life Insurance

First Commonwealth and the banks that First Commonwealth has acquired have purchased insurance on the lives of certain groups of employees. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits such as health care. Increases in the cash surrender value are recorded as non-interest income in the Consolidated Statements of Income. Under some of these policies, the beneficiaries receive a portion of the death benefit. The net present value of the future death benefits scheduled to be paid to the beneficiaries was $3.9 million

and $3.6 million as of December 31, 2014 and 2013, respectively, and is reflected in "Other Liabilities" on the Consolidated Statements of Financial Condition.

Premises and Equipment

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

Software costs are amortized on a straight-line basis over a period not to exceed seven years.

Goodwill

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

Other Intangible Assets

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

Accounting for the Impairment of Long-Lived Assets

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

Income Taxes

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

Comprehensive Income Disclosures

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing bank deposits. Generally, federal funds are sold for one-day periods.

Employee Stock Ownership Plan

Accounting treatment for First Commonwealth's Employee Stock Ownership Plan ("ESOP") described in Note 22 "Unearned ESOP Shares" follows FASB ASC Topic 718, "Compensation—Stock Compensation" for ESOP shares acquired after December 31, 1992 ("new shares"). First Commonwealth's ESOP borrowed funds were guaranteed by First Commonwealth. The ESOP shares purchased subject to the debt guaranteed by First Commonwealth were recorded as a reduction of common shareholders' equity by recording unearned ESOP shares. Shares were committed to be released to the ESOP Trust for allocation to plan participants through loan payments. As the shares were committed to be released, the unearned ESOP shares account was credited for the average cost of the shares collateralizing the

ESOP borrowed funds. Compensation cost was recognized for these shares in accordance with the provisions of FASB ASC Topic 718 and was based upon the fair market

Table of Contents

value of the shares that were committed to be released. Additional paid-in capital was charged or credited for the difference between the fair value of the shares committed to be released and the cost of those shares to the ESOP. The borrowed funds related to the unearned ESOP shares were paid off in November 2012.

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

Derivatives and Hedging Activities

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

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

Management periodically reviews contracts from various functional areas of First Commonwealth to identify potential derivatives embedded within selected contracts. As of December 31, 2014, First Commonwealth has interest derivative positions that are not designated as hedging instruments. See Note 7, "Derivatives," for a description of these instruments.

Earnings Per Common Share

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

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

Fair Value Measurements

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures," First Commonwealth groups financial assets and financial liabilities measured at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1—Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 securities include equity holdings comprised of publicly traded bank stocks which were priced using quoted market prices.
- Level 2—Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained for identical or comparable assets or liabilities from alternative pricing sources with reasonable levels of price transparency. Level 2 securities include U.S. Government securities issued by Agencies and Sponsored Enterprises, Obligations of States and Political Subdivisions, certain corporate securities, FHLB stock, interest rate derivatives that include interest rate swaps, risk participation agreements and foreign currency contracts, certain other real estate owned and certain impaired loans.
-

Level 3—Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the evaluation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or

liabilities. The assets included in Level 3 are select Obligations of States and Political Subdivisions, corporate securities, pooled trust preferred collateralized debt obligations, nonmarketable equity investments, certain other real estate owned, certain impaired loans and loans held for sale.
In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon pricing models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and our creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. See Note 19 “Fair Values of Assets and Liabilities” for additional information.

Note 2—New Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323)," which permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method allows an entity to amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). This amendment is effective for interim and annual periods beginning after December 15, 2014. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.
In January 2014, the FASB issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40)." This amendment clarifies that an in-substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of property upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction are required. This amendment is effective for annual periods beginning after December 15, 2014 and for interim periods within annual periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.
In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)." This amendment changes the reporting requirements for discontinued operations. A disposal of a component of an entity or group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift resulting in a major effect on the entity's operations and financial results when any of the following occurs: (1) the component or group of components of an entity meets the criteria to be classified as held for sale, (2) the component or group of components of an entity is disposed of by sale, or (3) the component or group of components of an entity is disposed of other than by sale. If one of these criteria are met, the entity will present the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections of the statement of financial position for each comparative period along with additional footnote disclosure. This amendment is effective for annual periods beginning on or after December 15, 2014 and interim periods within annual periods beginning on or after December 15, 2015. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.
In May 2014, the FASB issued Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity

satisfies a performance obligation. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early adoption is not permitted. First Commonwealth is evaluating the impact of the adoption of this ASU on financial condition and results of operation..

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860)," which requires two accounting changes. One changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting and the other requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty in regards to repurchase financing arrangements, which will result in secured borrowing accounting for the repurchase agreement. The ASU requires disclosure for certain transactions comprising a transfer of a financial asset accounted

Table of Contents

for as a sale and an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to economic return. The amendment also requires disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. This amendment will be effective for public entities for the first interim or annual period beginning after December 15, 2014. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718)," which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. This amendment is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with earlier adoption permitted. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." These amendments address the diversity in practice regarding the classification and measurement of foreclosed loans which were part of a government-sponsored loan guarantee program (e.g., HUD, FHA, VA). The ASU outlines certain criteria that, if met, the loan (residential or commercial) should be derecognized and a separate other receivable should be recorded upon foreclosure at the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This ASU will be effective for annual reporting periods beginning after December 15, 2014, including interim periods within that reporting period. Early adoption is permitted, provided the entity has adopted ASU 2014-04. The ASU should be adopted either prospectively or on a modified retrospective basis. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Topic 205-40)," which requires management to evaluate, for each annual and interim period, whether conditions or events, considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. When management identifies conditions or events that raise substantial doubt regarding an entity's ability to continue as a going concern, management should consider whether its plans that are intended to mitigate those relevant conditions or events will alleviate the substantial doubt. Certain footnote disclosures are required, the nature of which depends on if substantial doubt is alleviated as a result of consideration of management's plan. This amendment is effective for the annual period ending after December 15, 2016 and for annual and interim periods thereafter. The adoption of this ASU is not expected to have a material impact on First Commonwealth’s financial condition or results of operations.

Table of Contents

Note 3—Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income in the Consolidated Statements of Comprehensive Income as of December 31. Reclassification adjustments related to securities available for sale are included in the "Net securities gains" line in the Consolidated Statements of Income and reclassification adjustments related to losses on derivatives are included in the "Other operating expenses" line in the Condensed Consolidated Statements of Income.

	2014			2013			2012		
	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)								
Unrealized gains (losses) on securities:									
Unrealized holding gains (losses) on securities arising during the period	$25,153	$(8,803)	$16,350	$(34,975)	$12,233	$(22,742)	$(661)	$238	$(423)
Reclassification adjustment for (gains) losses on securities included in net income	(550)	193	(357)	1,158	(405)	753	(192)	67	(125)
Total unrealized gains (losses) on securities	24,603	(8,610)	15,993	(33,817)	11,828	(21,989)	(853)	305	(548)
Unrealized gains (losses) on derivatives:									
Unrealized holding gains on derivatives arising during the period	472	(165)	307	—	—	—	—	—	—
Reclassification adjustment for gains on derivatives included in net income	(10)	3	(7)	—	—	—	—	—	—
Total unrealized gains on derivatives	462	(162)	300	—	—	—	—	—	—
Unrealized (losses) gains for postretirement obligations:									
Transition obligation	—	—	—	—	—	—	2	(1)	1
Net (loss) gain	(313)	109	(204)	219	(77)	142	(300)	105	(195)
Total unrealized (losses) gains for	(313)	109	(204)	219	(77)	142	(298)	104	(194)

postretirement obligations									
Total other comprehensive income (loss)	$24,752	$(8,663)	$16,089	$(33,598)	$11,751	$(21,847)	$(1,151)	$409	$(742)

59

Table of Contents

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

	2014			
	Securities Available for Sale	Derivatives	Post-Retirement Obligation	Accumulated Other Comprehensive Income
	(dollars in thousands)			
Balance at January 1	$(20,868)	$—	$280	$(20,588)
Other comprehensive income before reclassification adjustment	16,350	307		16,657
Amounts reclassified from accumulated other comprehensive income (loss)	(357)	(7)		(364)
Transition obligation			—	—
Net gain			(204)	(204)
Net other comprehensive income during the period	15,993	300	(204)	16,089
Balance at December 31	$(4,875)	$300	$76	$(4,499)

	2013			
	Securities Available for Sale	Derivatives	Post-Retirement Obligation	Accumulated Other Comprehensive Income
	(dollars in thousands)			
Balance at January 1	$1,121	$—	$138	$1,259
Other comprehensive income before reclassification adjustment	(22,742)	—		(22,742)
Amounts reclassified from accumulated other comprehensive income (loss)	753	—		753
Transition obligation			—	—
Net gain			142	142
Net other comprehensive income during the period	(21,989)	—	142	(21,847)
Balance at December 31	$(20,868)	$—	$280	$(20,588)

	2012			
	Securities Available for Sale	Derivatives	Post-Retirement Obligation	Accumulated Other Comprehensive Income
	(dollars in thousands)			
Balance at January 1	$1,669	$—	$332	$2,001
Other comprehensive income before reclassification adjustment	(423)	—		(423)
Amounts reclassified from accumulated other comprehensive income (loss)	(125)	—		(125)
Transition obligation			1	1
Net gain			(195)	(195)

Net other comprehensive income during the period	(548)	—	(194)	(742)
Balance at December 31	$1,121	$—	$138	$1,259

Table of Contents

Note 4—Supplemental Cash Flow Disclosures

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

	2014	2013	2012
	(dollars in thousands)		
Cash paid during the period for:			
Interest	$18,943	$23,022	$31,597
Income taxes	10,700	3,080	11,641
Non-cash investing and financing activities:			
ESOP loan reductions	$—	$—	$1,600
Loans transferred to other real estate owned and repossessed assets	5,061	12,326	4,979
Other real estate owned sold and settled out of period	—	348	—
Fair value of loans transferred from held to maturity to available for sale	3,035	20,135	—
Gross increase (decrease) in market value adjustment to securities available for sale	24,601	(33,792)	(874)
Unsettled treasury stock repurchases	—	—	1,222
Contribution of premises	682	—	—

Note 5—Earnings per Share

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

	2014	2013	2012
Weighted average common shares issued	105,563,455	105,563,455	105,563,455
Average treasury shares	(12,294,217)	(8,363,083)	(1,456,953)
Averaged unearned ESOP shares	—	—	(38,393)
Average unearned nonvested shares	(154,584)	(172,215)	(182,713)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	93,114,654	97,028,157	103,885,396
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	—	1,675	171
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	—	—	96
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	93,114,654	97,029,832	103,885,663

The following table shows the number of shares and the price per share related to common stock equivalents that were not included in the computation of diluted earnings per share for the years ended December 31, because to do so would have been anti-dilutive.

	12/31/2014			12/31/2013			12/31/2012		
		Price Range			Price Range			Price Range	
	Shares	From	To	Shares	From	To	Shares	From	To
Stock Options	15,000	$14.55	$14.55	27,000	$14.41	$14.55	268,630	$6.90	$14.55
Restricted Stock	106,977	5.26	9.26	81,770	4.41	7.57	163,509	5.26	6.82

Note 6—Cash and Due from Banks

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

maintained average balances of $4.9 million during 2014 and $2.9 million during 2013 with the Federal Reserve Bank.

Table of Contents

Note 7—Derivatives

Derivatives Not Designated as Hedging Instruments

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

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

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

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

Derivatives Designated as Hedging Instruments

During the third quarter of 2014, the Company entered into two interest rate swap contracts which were designated as cash flow hedges. Both of the interest rate swaps have a notional amount of $50.0 million with a maturity of three years on one and four years on the other. The Company's risk management objective for these hedges is to reduce its exposure to variability in expected future cash flows related to interest payments on commercial loans benchmarked to the 1-month LIBOR rate. Therefore, the interest rate swaps convert the interest payments on the first $100.0 million of 1-month LIBOR based commercial loans into fixed rate payments.

The periodic net settlement of interest rate swaps is recorded as an adjustment to "Interest and fees on loans" in the Condensed Consolidated Statement of Income. For the year ended December 31, 2014, interest income was increased by $0.3 million as a result of these interest rate swaps. Changes in the fair value of the effective portion of cash flow hedges are reported in OCI. When the cash flows associated with the hedged item are realized, the gain or loss included in OCI is recognized in Interest and fees on loans, the same line item in the Condensed Consolidated Statement of Income as the income on the hedged items. The cash flow hedges were highly effective at December 31, 2014, and changes in the fair value attributed to hedge ineffectiveness were not material. There were no cash flow hedges at December 31, 2013.

Table of Contents

The following table depicts the credit value adjustment recorded related to the notional amount of derivatives outstanding as well as the notional amount of risk participation agreements participated to other banks at December 31:

	2014	2013
	(dollars in thousands)	
Derivatives not Designated as Hedging Instruments		
Credit value adjustment	$(268)	$77
Notional Amount:		
Interest rate derivatives	273,388	274,718
Interest rate caps	6,656	7,500
Risk participation agreements	113,624	82,197
Sold credit protection on risk participation agreements	(17,296)	(19,161)
Derivatives Designated as Hedging Instruments		
Fair value adjustment	472	—
Notional Amount - Interest rate derivatives	100,000	—

The table below presents the amount representing the change in the fair value of derivative assets and derivative liabilities attributable to credit risk included in “Other income” on the Consolidated Statements of Income for the years ended December 31:

	2014	2013	2012
	(dollars in thousands)		
Non-hedging interest rate derivatives:			
(Decrease) increase in other income	$(345)	$1,428	$755
Hedging interest rate derivatives:			
Increase in interest income	330	—	—
Increase in other income	10	—	—

The fair value of our derivatives is included in a table in Note 19, “Fair Values of Assets and Liabilities,” in the line items “Other assets” and “Other liabilities.”

Table of Contents

Note 8—Investment Securities

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

	2014				2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities – Residential	$23,344	$2,595	$(3)	$25,936	$22,639	$2,624	$(59)	$25,204
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage-Backed Securities – Residential	947,635	13,076	(9,830)	950,881	1,009,519	12,531	(27,163)	994,887
Mortgage-Backed Securities – Commercial	72	2	—	74	104	1	—	105
Other Government-Sponsored Enterprises	269,181	4	(1,308)	267,877	267,971	81	(1,927)	266,125
Obligations of States and Political Subdivisions	27,058	362	(43)	27,377	80	—	—	80
Corporate Securities	6,682	573	—	7,255	6,693	328	—	7,021
Pooled Trust Preferred Collateralized Debt Obligations	41,926	309	(13,236)	28,999	42,040	—	(18,517)	23,523
Total Debt Securities	1,315,898	16,921	(24,420)	1,308,399	1,349,046	15,565	(47,666)	1,316,945
Equities	1,420	—	—	1,420	1,420	—	—	1,420
Total Securities Available for Sale	$1,317,318	$16,921	$(24,420)	$1,309,819	$1,350,466	$15,565	$(47,666)	$1,318,365

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

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

During 2014, a gain of $0.5 million was recognized as the result of a recovery on a trust preferred security for which a $1.3 million loss was recognized in 2013 due to the early redemption of a pooled trust preferred security with a book value of $6.6 million. Senior note holders elected to liquidate all assets of the trust, resulting in losses for the mezzanine notes owned by First Commonwealth. The gain recognized in 2014 was a result of additional proceeds distributed as part of the final liquidation of the trust.

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

Table of Contents

The amortized cost and fair value of debt securities at December 31, 2014, by contractual maturity, are shown below:

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within 1 year	$3,000	$