FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-K
February 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2015

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 x No ¨

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, 2015) was approximately $851,661,514.

The number of shares outstanding of the registrant’s common stock, $1.00 Par Value as of February 26, 2016, was 88,961,268.

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 26, 2016 are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

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

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PART I

ITEM 1. Business

Overview

First Commonwealth Financial Corporation ("First Commonwealth," the "Company" 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, 2015, we had total assets of \$6.6 billion, total loans of \$4.7 billion, total deposits of \$4.2 billion and shareholders' equity of \$719.5 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, 2015, the Bank operated 110 community banking offices throughout western and central Pennsylvania, four community banking offices in Central Ohio, and loan production offices in Akron 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 116 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 60 branches in the Pittsburgh metropolitan statistical area and currently ranks tenth in deposit market share.

In 2015, we entered central Ohio through the acquisition of First Community Bank with \$102.8 million in assets and four branches in the Columbus area.

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.

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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.

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. Approximately 23%, by principal amount, of our commercial real estate loans involve owner-occupied properties.

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.

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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, 2015, we held $4.2 billion of total deposits, which consisted of $1.1 billion, or 27%, in non-interest bearing checking accounts, $2.5 billion, or 59%, in interest bearing checking accounts, money market and savings accounts, and $0.6 billion, or 14%, in CDs and IRAs.

Our deposit base is diversified by client type. As of December 31, 2015, no individual depositor represented more than 1% of our total deposits, and our top ten depositors represented only 1.1% 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 to 0.18% at December 31, 2015 from 0.28% 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, 2015, First Commonwealth and its subsidiaries employed 1,210 full-time employees and 101 part-time employees.

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Supervision and Regulation

The following discussion sets forth the material elements of the regulatory framework applicable to financial holding companies, 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.

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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, 2015, FCB could pay dividends to First Commonwealth of $99.2 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 stress 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.

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,

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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. In October 2015, the FDIC proposed to impose a surcharge on the quarterly assessments of insured depository institutions with total consolidated assets of $10 billion or more. This surcharge will not impact First Commonwealth.

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

First Commonwealth and FCB are each required to comply with applicable capital adequacy standards established by the FRB. The current risk-based capital standards applicable to First Commonwealth and FCB, parts of which are currently in the process of being phased-in, are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the "Basel Committee").

Prior to January 1, 2015, the risk-based capital standards applicable to First Commonwealth and FCB were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee. In July 2013, the federal bank regulators approved final rules (the "Basel III Capital Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including First Commonwealth and FCB, as compared to the Basel I risk-based capital rules. The Basel III Capital Rules became effective for First Commonwealth and FCB on January 1, 2015 (subject to a phase-in period for certain provisions).

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.

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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. During 2015, First Commonwealth and FCB made a one-time permanent election, as permitted under Basel III Capital Rules, to exclude the effects of accumulated other comprehensive income items for the purposes of determining regulatory capital ratios.

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, 2015, 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.

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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 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, 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, 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% 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% 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, 2015, FCB was a “well-capitalized” bank as defined by the FDIC. See Note 25 “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.

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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.” Banks with less than $10 billion in total consolidated assets, such as FCB, 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. If we did not qualify for the exemption, it is projected that the interchange fee cap would adversely impact interchange income by $6.0 million. 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 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.

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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 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

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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, 2015, approximately 62% of our loans were secured by real estate. These loans consist of residential real estate loans (approximately 26% of total loans), commercial real estate loans (approximately 31% of total loans) and real estate construction loans (approximately 5% 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.

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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 material 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, 2015, 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.

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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 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, 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.

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.

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- 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 25, 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 24 are leased and 86 are owned. We also lease two loan production offices. During 2015, we acquired First Community Bank which added four banking offices, three of which are owned and one is leased. In addition, during 2015, we closed four banking offices, three of which were owned and one was leased.

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 23, “Contingent Liabilities,” which is incorporated herein by reference in response to this item.

ITEM 4. Mine Safety Disclosures

Not applicable.

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Executive Officers of First Commonwealth Financial Corporation

The name, age and principal occupation for each of the executive officers of First Commonwealth Financial Corporation as of December 31, 2015 is set forth below:

I. Robert Emmerich, age 65, 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 57, 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 56, 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 48, 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 53, 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 52, 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 46, 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 39, has served as Executive Vice President, Chief Risk Officer and General Counsel of First Commonwealth Financial Corporation since November 2010. He previously served as Senior Vice President / Legal and Compliance since September 2007. Before joining First Commonwealth, Mr. Tomb practiced law with Sherman & Howard L.L.C. in Denver, Colorado.

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PART II

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

First Commonwealth is listed on the NYSE under the symbol "FCF." As of December 31, 2015, there were approximately 6,650 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
2015			
First Quarter	$9.14	$7.85	$0.07
Second Quarter	9.84	8.90	0.07
Third Quarter	9.77	8.31	0.07
Fourth Quarter	9.88	8.85	0.07

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

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 25, 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.

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The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on First Commonwealth's common stock to the KBW Regional Banking Index and the Russell 2000 Index. The stock performance graph assumes $100 was invested on December 31, 2010, and the cumulative return is measured as of each subsequent fiscal year end.

	Period Ending					
Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
First Commonwealth Financial Corporation	100.00	75.90	101.19	134.92	145.69	147.78
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
KBW Regional Banking Index	100.00	94.86	107.58	157.96	161.80	171.51

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ITEM 6. Selected Financial Data

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

	Periods Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except share data)				
Interest income	$204,071	$202,181	$206,358	$219,075	$231,545
Interest expense	15,595	18,501	21,707	30,146	41,678
Net interest income	188,476	183,680	184,651	188,929	189,867
Provision for credit losses	14,948	11,196	19,227	20,544	55,816
Net interest income after provision for credit losses	173,528	172,484	165,424	168,385	134,051
Net securities (losses) gains	(153)	550	(1,158)	192	2,185
Other income	61,478	60,309	61,321	65,242	55,484
Other expenses	163,874	171,210	168,824	177,207	176,826
Income before income taxes	70,979	62,133	56,763	56,612	14,894
Income tax provision (benefit)	20,836	17,680	15,281	14,658	(380)
Net Income	$50,143	$44,453	$41,482	$41,954	$15,274
Per Share Data—Basic					
Net Income	$0.56	$0.48	$0.43	$0.40	$0.15
Dividends declared	$0.28	$0.28	$0.23	$0.18	$0.12
Average shares outstanding	89,356,767	93,114,654	97,028,157	103,885,396	104,700,227
Per Share Data—Diluted					
Net Income	$0.56	$0.48	$0.43	$0.40	$0.15
Average shares outstanding	89,356,767	93,114,654	97,029,832	103,885,663	104,700,393
At End of Period					
Total assets	$6,566,890	$6,360,285	$6,214,861	$5,995,390	$5,841,122
Investment securities	1,333,836	1,354,364	1,353,809	1,199,531	1,182,572
Loans and leases, net of unearned income	4,683,750	4,457,308	4,283,833	4,204,704	4,057,055
Allowance for credit losses	50,812	52,051	54,225	67,187	61,234
Deposits	4,195,894	4,315,511	4,603,863	4,557,881	4,504,684
Short-term borrowings	1,510,825	1,105,876	626,615	356,227	312,777
Subordinated debentures	72,167	72,167	72,167	105,750	105,750
Other long-term debt	9,314	89,459	144,385	174,471	101,664
Shareholders' equity	719,546	716,145	711,697	746,007	758,543
Key Ratios					
Return on average assets	0.78%	0.71%	0.68%	0.71%	0.27%
Return on average equity	6.98	6.18	5.70	5.46	2.00
Net loans to deposits ratio	110.42	102.08	91.87	90.78	88.70
Dividends per share as a percent of net income per share	50.00	58.33	53.49	44.57	82.26
Average equity to average assets ratio	11.23	11.45	11.87	12.95	13.33

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

The following discussion and analysis represents an overview of the financial condition and the results of operations of First Commonwealth and its subsidiaries, FCB, First Commonwealth Insurance Agency, Inc. ("FCIA") and First Commonwealth Financial Advisors, Inc. ("FCFA"), as of and for the years ended December 31, 2015, 2014 and 2013. During 2014, First Commonwealth sold FCFA's 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, 2015, FCB operated 110 community banking offices throughout western Pennsylvania and central Ohio as well as loan production offices in Akron 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 and 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.

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- Individual loans are selected for review in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310, "Receivables." These are generally large balance commercial loans and commercial mortgages that are rated less than "satisfactory" based on our internal credit-rating process.
- We assess whether the loans identified for review in step one are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement, which generally represents loans that management has placed on nonaccrual status.
- For impaired loans we calculate the estimated fair value of the loans that are selected for review based on observable market prices, discounted cash flows or the value of the underlying collateral and record an allowance if needed.
- We then select pools of homogeneous 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 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.

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

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

Level 3 investments include pooled trust preferred collateralized debt obligations. The fair values of these investments are determined by a specialized third party valuation service. Management validates the fair value of the pooled trust preferred collateralized debt obligations by monitoring the performance of the underlying collateral, discussing the discount rate, cash flow assumptions and general market trends with the specialized third party and by confirming changes in the underlying collateral to the trustee and underwriter reports. Management's monitoring of the underlying collateral includes deferrals of interest payments, payment defaults, cures of previously deferred interest payments, any regulatory filings or actions and general news related to the underlying collateral. Management also evaluates fair value changes compared to expectations based on changes in the interest rates used in determining the discount rate and general financial markets.

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

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Discussion and Analysis of Financial Condition and Results of Operations and in Note 9 “Impairment of Investment Securities” and Note 18 “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—2015 Compared to 2014

Net Income

Net income for 2015 was $50.1 million, or $0.56 per diluted share, as compared to net income of $44.5 million, or $0.48 per diluted share, in 2014. The growth in net income is a result of an increase in net interest income of $4.8 million, combined with a decrease in noninterest expense of $7.3 million and growth in noninterest income of $0.5 million.

Our return on average equity was 7.0% and return on average assets was 0.78% for 2015, compared to 6.2% and 0.71%, respectively, for 2014.

Average diluted shares for the year 2015 were 4% less than the comparable period in 2014 primarily due to a $25.0 million common stock buyback program authorized during 2015.

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 2015 was $3.5 million compared to $3.3 million in 2014. Net interest income comprises a majority of our operating revenue (net interest income before provision expense plus noninterest income) at 75% for the years ended December 31, 2015 and 2014.

Net interest income, on a fully taxable equivalent basis, was $191.9 million for the year-ended December 31, 2015, a $4.9 million, or 3%, increase compared to $187.0 million for the same period in 2014. The net interest margin, on a fully taxable equivalent basis, increased 1 basis points to 3.28% in 2015 from 3.27% in 2014. The net interest margin is affected by both changes in the level of interest rates and the amount and composition of interest-earning assets and interest-bearing liabilities.

The interest rate environment and resulting decline in rates earned on interest-earning assets challenged the net interest margin during the year ended December 31, 2015. Yields and spreads on new loan volumes continued to experience pricing pressures in 2015, specifically for fixed rate commercial loans, home equity loans and indirect auto 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. Growth in earning assets has helped to offset the spread compression as average earning assets for the year ended December 31, 2015 increased $125.4 million, or 2%, compared to the comparable period in 2014. The acquisition of First Community, as of October 1, 2015, accounted for $15.2 million of the increase in average earning assets for 2015. Interest-sensitive assets totaling $3.1 billion will either reprice or mature over the next twelve months.

The taxable equivalent yield on interest-earning assets was 3.55% for the year ended December 31, 2015, a decrease of 4 basis points from the 3.59% yield for the same period in 2014. This decline can be attributed to lower replacement yields on loan portfolio runoff and maturities as a result of narrowing pricing spreads. Partially offsetting the decrease in loan yield is an 18 basis point increase in the investment portfolio yield. This increase can be attributed to the runoff or sale of lower yielding U.S. Agency securities which were replaced with higher yielding investment securities. Investment portfolio purchases during the year ended December 31, 2015 have been primarily in mortgage-related assets with approximate durations of 48-60 months and municipal securities with a duration of five years. The mortgage-related investments have monthly principal payments that will provide for reinvestment opportunities should interest rates rise.

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 0.34% for the year-ended December 31, 2015, compared to 0.41% for the same period in 2014. This decline is primarily due to a 28 basis point decline in the cost of time deposits as maturities repriced to lower rates or were replaced with lower cost short-term borrowings.

Comparing the year-ended December 31, 2015 with the same period in 2014, changes in interest rates negatively impacted net interest income by $5.1 million. The lower yield on interest-earning assets adversely impacted net interest income by $4.6 million, while a change in the mix of interest-bearing liabilities had a negative impact of $0.5 million on net interest income. 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 changing the mix of our investment portfolio.

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 $10.1 million in the year ended December 31, 2015 compared to the same period in 2014. Higher levels of interest-earning assets resulted in an increase of $6.6 million in interest income, while increased short-term borrowings, partially offset by a reduction in time deposits and long-term borrowings, decreased interest expense by $3.4 million. During the first quarter of 2015, 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 $1.4 billion in LIBOR based loans. A similar cash flow interest rate swap, with a notional amount of $100.0 million, was entered into in 2014.

Positively affecting net interest income was a $100.4 million increase in average net free funds at December 31, 2015 as compared to December 31, 2014. 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 $88.5 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, 2015 decreased $338.8 million million, or 33%, compared to the comparable period in 2014, while the average rate paid on time deposits decreased 28 basis points. The positive change in deposit mix is expected to continue as $354.1 million in certificates of deposits either mature or reprice over the next twelve months.

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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,		
	2015	2014	2013
	(dollars in thousands)		
Interest income per Consolidated Statements of Income	$204,071	$202,181	$206,358
Adjustment to fully taxable equivalent basis	3,465	3,327	4,081
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	207,536	205,508	210,439
Interest expense	15,595	18,501	21,707
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	$191,941	$187,007	$188,732

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

	Average Balance Sheets and Net Interest Analysis								
	2015			2014			2013		
	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	$8,640	$14	0.16 %	$4,728	$12	0.25 %	$3,355	$7	0.21 %
Tax-free investment securities (e)	40,459	1,534	3.79	12,274	478	3.89	83	6	7.40
Taxable investment securities	1,248,689	30,241	2.42	1,352,494	30,662	2.27	1,300,538	30,218	2.32
Loans, net of unearned income (b)(c)(f)	4,553,634	175,747	3.86	4,356,566	174,356	4.00	4,255,593	180,208	4.23
Total interest-earning assets	5,851,422	207,536	3.55	5,726,062	205,508	3.59	5,559,569	210,439	3.79
Noninterest-earning assets:									
Cash	66,937			71,139			71,930		
Allowance for credit losses	(49,776)			(54,517)			(62,800)		
Other assets	530,068			538,429			563,283		
Total noninterest-earning assets	547,229			555,051			572,413		
Total Assets	$6,398,651			$6,281,113			$6,131,982		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	$654,926	$231	0.04 %	$625,516	$192	0.03 %	$670,524	$236	0.04 %
Savings deposits (d)	1,855,024	2,542	0.14	1,876,972	2,348	0.13	1,942,323	2,962	0.15
Time deposits	689,247	4,701	0.68	1,028,053	9,913	0.96	1,154,984	12,398	1.07
Short-term borrowings	1,252,531	5,018	0.40	815,394	2,449	0.30	478,388	1,262	0.26
Long-term debt	119,277	3,103	2.60	200,114	3,599	1.80	233,483	4,849	2.08
Total interest-bearing liabilities	4,571,005	15,595	0.34	4,546,049	18,501	0.41	4,479,702	21,707	0.48

Noninterest-bearing liabilities and shareholders' equity:								
Noninterest-bearing demand deposits (d)	1,052,886			964,422			876,111		
Other liabilities	56,036			51,347			48,335		
Shareholders' equity	718,724			719,295			727,834		
Total noninterest-bearing funding sources	1,827,646			1,735,064			1,652,280		
Total Liabilities and Shareholders' Equity	$6,398,651			$6,281,113			$6,131,982		
Net Interest Income and Net Yield on Interest-Earning Assets		$191,941	3.28 %		$187,007	3.27 %		$188,732	3.39 %

(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 for the year ended 2013.

(f) Includes held for sale loans.

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

	Analysis of Year-to-Year Changes in Net Interest Income					
	2015 Change from 2014			2014 Change from 2013		
	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	$2	$10	$(8)	$5	$3	$2
Tax-free investment securities	1,056	1,096	(40)	472	902	(430)
Taxable investment securities	(421)	(2,356)	1,935	444	1,205	(761)
Loans	1,391	7,883	(6,492)	(5,852)	4,271	(10,123)
Total interest income (b)	2,028	6,633	(4,605)	(4,931)	6,381	(11,312)
Interest-bearing liabilities:						
Interest-bearing demand deposits	39	9	30	(44)	(18)	(26)
Savings deposits	194	(29)	223	(614)	(98)	(516)
Time deposits	(5,212)	(3,253)	(1,959)	(2,485)	(1,358)	(1,127)
Short-term borrowings	2,569	1,311	1,258	1,187	876	311
Long-term debt	(496)	(1,455)	959	(1,250)	(694)	(556)
Total interest expense	(2,906)	(3,417)	511	(3,206)	(1,292)	(1,914)
Net interest income	$4,934	$10,050	$(5,116)	$(1,725)	$7,673	$(9,398)

(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 the 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:

	2015		2014	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	$11,740	79 %	$15,141	135 %
Real estate construction	(1,252)	(8)	(5,581)	(50)
Residential real estate	(106)	(1)	(1,560)	(14)
Commercial real estate	1,352	9	639	6
Loans to individuals	3,214	21	2,557	23
Total	$14,948	100 %	$11,196	100 %

The provision for credit losses for the year 2015 totaled $14.9 million, an increase of $3.8 million, or 33.51%, compared to the year 2014. The majority of the 2015 provision expense is attributable to commercial, financial, agricultural and other loans as a result of specific reserves established or charge-offs recorded for three borrowers. Outstanding balances as of December 31, 2015 for these borrowers includes $3.9 million to a steel and mine equipment company, $7.5 million to an oil and gas well servicer and $3.9 million to a sporting goods manufacturer. These provisions were partially offset by the release of $1.1 million in specific reserves for loans transferred to held for sale in the first quarter of 2015. These held for sale loans were sold during the third quarter of 2015, at which time a gain of $0.4 million was recognized.

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The provision expense for commercial real estate loans is primarily due to charge-offs in this loan category, while the provision expense for loans to individuals is largely due to charge-offs in the indirect automobile portfolio. Real estate construction and residential real estate reflect a negative provision expense primarily due to a decline in historical loss factors for these categories.

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, agricultural and other 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 allowance for credit losses was $50.8 million, or 1.08%, of total loans outstanding at December 31, 2015, compared to $52.1 million, or 1.17%, at December 31, 2014. Nonperforming loans as a percentage of total loans decreased to 1.09% at December 31, 2015 from 1.24% at December 31, 2014. The allowance to nonperforming loan ratio was 99.9% as of December 31, 2015 and 94.2% at December 31, 2014. Net charge-offs were $16.2 million for the year-ended December 31, 2015 compared to $13.4 million for the same period in 2014.

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 growth in GDP, 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, 2015.

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

	2015	2014	2013	2012	2011
	(dollars in thousands)				
Loans outstanding at end of year	$4,683,750	$4,457,308	$4,283,833	$4,204,704	$4,057,055
Average loans outstanding	$4,553,634	$4,356,566	$4,255,593	$4,165,292	$4,061,822
Balance, beginning of year	$52,051	$54,225	$67,187	$61,234	$71,229
Loans charged off:					
Commercial, financial, agricultural and other	11,429	8,911	18,399	5,207	7,114
Real estate construction	8	296	773	3,601	28,886
Residential real estate	1,539	3,153	1,814	3,828	4,107
Commercial real estate	1,538	1,148	10,513	851	24,861
Loans to individuals	4,354	3,964	3,679	3,482	3,325
Total loans charged off	18,868	17,472	35,178	16,969	68,293
Recoveries of loans previously charged off:					
Commercial, financial, agricultural and other	1,097	734	455	443	473
Real estate construction	84	1,340	501	582	955
Residential real estate	587	650	1,264	422	132
Commercial real estate	229	612	136	410	349
Loans to individuals	684	766	633	521	573
Total recoveries	2,681	4,102	2,989	2,378	2,482
Net charge-offs	16,187	13,370	32,189	14,591	65,811
Provision charged to expense	14,948	11,196	19,227	20,544	55,816
Balance, end of year	$50,812	$52,051	$54,225	$67,187	$61,234
Ratios:					
Net charge-offs as a percentage of average loans outstanding	0.36 %	0.31 %	0.76 %	0.35 %	1.62 %
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.08 %	1.17 %	1.27 %	1.60 %	1.51 %

Noninterest Income

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

	2015	2014	2013	2015 compared to 2014 $ Change	% Change
	(dollars in thousands)				
Noninterest Income:					
Trust income	$5,834	$6,000	$6,166	$(166)	(3)%
Service charges on deposit accounts	15,319	15,661	15,652	(342)	(2)
Insurance and retail brokerage commissions	8,522	6,483	6,005	2,039	31
Income from bank owned life insurance	5,412	5,502	5,539	(90)	(2)
Card related interchange income	14,501	14,222	13,746	279	2
Other income	7,614	7,445	12,060	169	2
Subtotal	57,202	55,313	59,168	1,889	3
Net securities (losses) gains	(153)	550	(1,158)	(703)	(128)

Gain on sale of loans	2,819	516	624	2,303	446
Gain on sale of assets	1,457	4,480	1,529	(3,023)	(67)
Total noninterest income	$61,325	$60,859	$60,163	$466	1 %

Noninterest income, excluding net securities gains (losses), gain on sale of loans and gain on sale of assets, increased $1.9 million, or 3.42%, in 2015, as a result of a $2.0 million increase in insurance and retail brokerage commissions. This increase is attributable to increased production and an agency acquisition in the fourth quarter of 2014. The increase in card-related

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interchange income can be attributed to growth in the number of deposit customers, as well as continued increases in electronic payments by our customers. The fair value adjustment on derivatives contributed $0.1 million to the other income category increase. Offsetting these increases is a $0.3 million decrease in service charges on deposit accounts primarily due to lower overdraft fees.

Total noninterest income increased $0.5 million, or 1%, in comparison to the year ended 2014. The most notable change includes a $3.0 million decrease in the gain on sale of assets as a result of a $1.2 million gain recognized in 2014 on the sale of the Company's registered investment advisory business and three OREO properties that resulted in gains of $3.2 million. Offsetting this decrease is a $2.3 million increase in the gain on sale of loans primarily due to the Company reentering the secondary mortgage market.

Comparing the year 2015 to the year 2014, net securities gains (losses) decreased $0.7 million. This change is primarily due to a $0.3 million loss recognized in the fourth quarter of 2015 on the sale of approximately $75 million of low-yielding US agency securities. Proceeds from the sale of these securities were reinvested into higher yielding mortgage-backed securities. In 2014, a $0.5 million gain was recognized as a result of the early redemption on one of our pooled trust preferred securities.

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 $6.0 million.

Noninterest Expense

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

				2015 Compared to 2014	
	2015	2014	2013	$ Change	% Change
	(dollars in thousands)				
Noninterest Expense:					
Salaries and employee benefits	$89,161	$87,223	$86,012	$1,938	2 %
Net occupancy	13,712	13,119	13,607	593	5
Furniture and equipment	10,737	12,235	13,148	(1,498)	(12)
Data processing	6,123	6,124	6,009	(1)	—
Advertising and promotion	2,638	2,953	3,129	(315)	(11)
Pennsylvania shares tax	4,693	3,776	5,638	917	24
Intangible amortization	605	631	1,064	(26)	(4)
Collection and repossession	2,826	2,754	3,836	72	3
Other professional fees and services	4,034	3,986	3,731	48	1
FDIC insurance	4,014	4,054	4,366	(40)	(1)
Other operating expenses	19,178	18,609	19,928	569	3
Subtotal	157,721	155,464	160,468	2,257	1
Loss on sale or write-down of assets	3,112	1,595	1,054	1,517	95
Litigation and operational losses	2,119	6,786	1,115	(4,667)	(69)
Loss on early redemption of subordinated debt	—	—	1,629	—	—
Furniture and equipment - related to IT conversion	—	5,577	1,970	(5,577)	(100)
Conversion related	—	1,788	2,588	(1,788)	(100)
Merger and acquisition related	922	—	—	922	NA
Total noninterest expense	$163,874	$171,210	$168,824	$(7,336)	(4)%

Noninterest expense, excluding the loss on sale or write-down of assets, litigation and operational losses, furniture and equipment expense related to the IT conversion, conversion related and merger and acquisition related expense, increased $2.3 million, or 1%, for the year ended 2015 compared to 2014. Contributing to the 2015 increase is salaries and employee benefits expense which increased $1.9 million, or 2%, primarily due to $2.1 million in one-time severance charges related to the realignment of our consumer business.

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Pennsylvania shares tax expense in 2015 increased $0.9 million over 2014 as the result of a $0.7 million agreement reached in the third quarter of 2015 for a disputed tax assessment. The dispute related to the capital treatment of minority interest in a non-controlled subsidiary for the years 2011, 2012, and 2013. There are no other tax years open for assessment of this minority interest issue.

Offsetting these increases is a $1.5 million decrease in furniture and equipment expense due to declines in equipment and software maintenance costs as a result of the IT system conversion completed in the third quarter of 2014.

Loss on the sale or write-down of assets increased $1.5 million for the year 2015 compared to 2014. The loss in 2015 includes $1.5 million in write-downs on OREO properties as a result of updated appraisals obtained on properties for two commercial loan relationships and $0.9 million in write-downs related to the disposition of four branch offices that were closed or relocated due to cost or other market opportunities. In 2014, a former headquarters building was donated to a local university, resulting in a $0.6 million donation expense.

Litigation and operational losses decreased $4.7 million as a result of an $8.6 million litigation reserve recognized in 2014. Partially offsetting this charge in 2014 was a $3.0 million recovery on an external fraud loss from a prior year. For the year 2015, litigation and operational losses are largely due to fraud losses recognized in conjunction with several merchant debit card breaches.

Merger related expenses totaled $0.9 million and include one-time expenses related to the acquisition of Columbus, Ohio based First Community Bank.

During the third quarter of 2014, First Commonwealth completed a system conversion to the Jack Henry and Associates Silverlake core processing system and outsourced certain data processing services that had previously been performed in-house. Expenses related to this conversion included accelerated depreciation for data processing hardware and software, early termination charges on previous contracts, and staffing and employment-related charges. For the year ended 2014, $5.6 million in accelerated depreciation and $1.8 million in other conversion related expenses were recognized.

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

Income Tax

The provision for income taxes of $20.8 million in 2015 reflects an increase compared to the provision for income taxes of $17.7 million in 2014 mostly due to the increase in the level of pretax income of $71.0 million and $62.1 million for 2015 and 2014, respectively.

The effective tax rate was 29% and 28% for tax expense in 2015 and 2014, 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 $206.6 million in 2015. Loans, including loans held for sale, increased $229.7 million, or 5%, while investments decreased $38.9 million, or 3%.

Loan growth in 2015 was primarily in the real estate construction, commercial real estate and commercial, financial, agricultural categories. Impacting loan growth in 2015 was a decline of $44.2 million in loans to individuals as a result of a $43.6 million decline in the indirect auto loan portfolio. The volume decrease is a direct result of the Company's pricing as competitors offered aggressive pricing with narrowing spreads.

During 2015, approximately $470.6 million in investment securities were called or matured. Some of these securities were lower yielding securities and as such, their replacement contributed to the increase in yield earned on the portfolio. In total, $360.3 million in mortgage-backed securities, $23.4 million in agency securities and $22.5 million in municipal securities were purchased in 2015 to help increase earnings from the portfolio while maintaining a reduced risk profile.

First Commonwealth’s total liabilities increased $203.2 million, or 4%, in 2015. Deposits decreased $119.6 million, or 3%, and long-term debt decreased $80.1 million, or 50%, as funding needs were met with lower costing short-term borrowings, which increased $404.9 million, or 37%.

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Total shareholders equity increased $3.4 million in 2015. Growth in shareholders equity was due to net income of $50.1 million and increases in other comprehensive income of $2.1 million, partially offset by $25.1 million in dividends declared and $25.4 million in stock repurchases.

Loan Portfolio

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

	2015		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Commercial, financial, agricultural and other	$1,150,906	25 %	$1,052,109	24 %	$1,021,056	24 %	$1,019,822	24 %	$996,739	25 %
Real estate construction	220,736	5	120,785	3	93,289	2	87,438	2	76,564	2
Residential real estate	1,224,465	26	1,226,344	27	1,262,718	30	1,241,565	30	1,137,059	28
Commercial real estate	1,479,000	31	1,405,256	31	1,296,472	30	1,273,661	30	1,267,432	31
Loans to individuals	608,643	13	652,814	15	610,298	14	582,218	14	565,849	14
Total loans and leases net of unearned income	$4,683,750	100 %	$4,457,308	100 %	$4,283,833	100 %	$4,204,704	100 %	$4,043,643	100 %

The loan portfolio totaled $4.7 billion as of December 31, 2015, reflecting growth of $226.4 million, or 5%, compared to December 31, 2014. Loan growth was experienced in all categories except loans to individuals and residential real estate, with the majority of the growth being recognized in real estate construction and commercial, financial, agricultural and other loans. Declines in the loans to individuals category is primarily due to a decline in indirect auto loans. The decline in residential real estate loans is the result of continued runoff in our mortgage portfolio, as many of the loans originated by our mortgage banking area are sold in the secondary market. Increases in commercial, financial, agricultural and other portfolio and commercial real estate loans can largely be attributed to growth in direct middle market lending and syndications in Pennsylvania and contiguous states. Growth in construction loans is primarily the result of several multifamily and hospitality projects in the Columbus, Cleveland and Pittsburgh markets. The acquisition of First Community contributed $58.3 million to loan growth for the year 2015.

The majority of our loan portfolio is with borrowers located in Pennsylvania. The Company expanded into the Ohio market area with the opening of a loan production office in Cleveland, Ohio in 2013 and the acquisition of First Community Bank of Columbus, Ohio in the fourth quarter of 2015. As of December 31, 2015 and 2014, 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 2015 with decreases in the level of criticized assets, delinquency and nonaccrual loans. As of December 31, 2015, criticized loans (i.e., loans designated OAEM, substandard, impaired or doubtful) decreased $6.2 million, or 4%, from December 31, 2014. Criticized loans totaled $134.0 million at December 31, 2015 and represented 3% of the total loan portfolio. Additionally, delinquencies on accruing loans decreased $5.9 million, or 31%, at December 31, 2015 compared to December 31, 2014. As of December 31, 2015, nonaccrual loans decreased $6.0 million, or 14%, compared to December 31, 2014.

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Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans at December 31, 2015 were as follows:

	Within One Year	One to 5 Years	After 5 Years	Total
	(dollars in thousands)			
Commercial, financial, agricultural and other	$77,200	$661,802	$348,160	$1,087,162
Real estate construction (a)	78,516	94,666	45,635	218,817
Commercial real estate	115,303	394,399	969,056	1,478,758
Other	2,779	17,806	126,396	146,981
Totals	$273,798	$1,168,673	$1,489,247	$2,931,718
Loans at fixed interest rates		260,857	290,103	
Loans at variable interest rates		907,816	1,199,144	
Totals		$1,168,673	$1,489,247	

(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 legal lending limit of $98.4 million to any one borrower or closely related group of borrowers, but has established lower thresholds for credit risk management.

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 activities.

As of December 31, 2015, the Company had a total of $144.2 million in commitments to the Oil and Gas Industry, with $65.2 million in outstanding loan balances against those commitments. Of this total, commitments of $40.7 million with outstanding balances of $12.3 million are for exploration and production, while $103.5 million in commitments, with outstanding balances of $52.9 million, are related to ancillary businesses.

Two customers account for 85.9% of the loans related to exploration and production and both are pass rated credits. These credit facilities are primarily used to support letters of credit and have little or no usage. One commercial relationship in this category, totaling $3.4 million, is on non-performing status and has been even before the oil price decline that began 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 27.0% 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 $37.7 million in the ancillary sector that may 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 $2.3 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. Consumer loans are placed in nonaccrual status at 150 days past due. Other types of loans are 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. 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

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present value of projected future cash flows. Losses are recognized when a loss is probable and the amount is reasonably estimable.

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

	2015	2014	2013	2012	2011
	(dollars in thousands)				
Nonperforming Loans:					
Loans on nonaccrual basis	$24,345	$25,715	$28,908	$43,539	$33,635
Loans held for sale on nonaccrual basis	—	—	—	—	13,412
Troubled debt restructured loans on nonaccrual basis	12,360	16,952	16,980	50,979	44,841
Troubled debt restructured loans on accrual basis	14,139	12,584	13,495	13,037	20,276
Total nonperforming loans	$50,844	$55,251	$59,383	$107,555	$112,164
Loans past due in excess of 90 days and still accruing	$2,455	$2,619	$2,505	$2,447	$11,015
Other real estate owned	$9,398	$7,197	$11,728	$11,262	$30,035
Loans outstanding at end of period	$4,683,750	$4,457,308	$4,283,833	$4,204,704	$4,057,055
Average loans outstanding	$4,553,634	$4,356,566	$4,255,593	$4,165,292	$4,061,822
Nonperforming loans as a percentage of total loans	1.09 %	1.24 %	1.39 %	2.56 %	2.76 %
Provision for credit losses	$14,948	$11,196	$19,227	$20,544	$55,816
Allowance for credit losses	$50,812	$52,051	$54,225	$67,187	$61,234
Net charge-offs	$16,187	$13,370	$32,189	$14,591	$65,811
Net charge-offs as a percentage of average loans outstanding	0.36 %	0.31 %	0.76 %	0.35 %	1.62 %
Provision for credit losses as a percentage of net charge-offs	92.35 %	83.74 %	59.73 %	140.80 %	84.81 %
Allowance for credit losses as a percentage of end-of-period loans outstanding (a)	1.08 %	1.17 %	1.27 %	1.60 %	1.51 %
Allowance for credit losses as a percentage of nonperforming loans (a)	99.94 %	94.21 %	91.31 %	62.47 %	62.01 %
Gross income that would have been recorded at original rates	$572	$784	$7,920	$15,036	$14,872
Interest that was reflected in income	—	—	679	369	1,393
Net reduction to interest income due to nonaccrual	$572	$784	$7,241	$14,667	$13,479

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

Nonperforming loans decreased $4.4 million to $50.8 million at December 31, 2015, compared to $55.3 million at December 31, 2014. Nonperforming loans as a percentage of total loans decreased to 1.1% from 1.2% at December 31, 2015 compared to December 31, 2014. Other real estate owned totaled $9.4 million at December 31, 2015, compared to $7.2 million at December 31, 2014.

Also included in nonperforming loans are troubled debt restructured loans (“TDRs”). TDRs 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. TDRs decreased $3.0 million during 2015. For additional information on TDRs please refer to Note 10 “Loans and Allowance for Credit Losses.”

Net charge-offs were $16.2 million in 2015 compared to $13.4 million for the year 2014. The most significant credit losses recognized during the year included charge-offs for three commercial borrowers, including $3.3 million for a local energy company, $2.3 million for local water facility construction company and $2.0 million for steel and mining equipment company.

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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 92.4% for the year ended December 31, 2015 from 83.7% for the year ended December 31, 2014.

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

	2015 Allowance Amount	% (a)	2014 Allowance Amount	% (a)	2013 Allowance Amount	% (a)	2012 Allowance Amount	% (a)	2011 Allowance Amount	% (a)
	(dollars in thousands)									
Commercial, financial, agricultural and other	$31,035	25 %	$29,627	24 %	$22,663	24 %	$19,852	24 %	$18,200	25 %
Real estate construction	887	5	2,063	3	6,600	2	8,928	2	6,756	2
Residential real estate	2,606	26	3,664	27	7,727	30	5,908	30	8,237	28
Commercial real estate	11,924	31	11,881	31	11,778	30	22,441	30	18,961	31
Loans to individuals	4,360	13	4,816	15	5,457	14	4,132	14	4,244	14
Unallocated	—	N/A	—	N/A	—	N/A	5,926	N/A	4,836	N/A
Total	$50,812		$52,051		$54,225		$67,187		$61,234	
Allowance for credit losses as percentage of end-of-period loans outstanding	1.08 %		1.17 %		1.27 %		1.60 %		1.51 %	

(a) Represents the ratio of loans in each category to total loans.
The allowance for credit losses decreased $1.2 million from December 31, 2014 to December 31, 2015. The allowance for credit losses as a percentage of end-of-period loans outstanding was 1.1% at December 31, 2015 compared to 1.2% at December 31, 2014. The allowance for credit losses includes both a general reserve for performing loans and specific reserves for impaired loans. Comparing December 31, 2015 to December 31, 2014, the general reserve for performing loans decreased from 0.96% to 0.94% of total performing loans. Specific reserves decreased from 19.5% of nonperforming loans at December 31, 2014 to 16.0% of nonperforming loans at December 31, 2015. The allowance for credit losses as a percentage of nonperforming loans was 99.9% and 94.2% at December 31, 2015 and 2014, 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 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. For years ended December 31, 2015, 2014 and 2013, any additional allocation made to the allowance as a result of this review is reflected in the applicable loan category in the previous table. For years ended December 31, 2012 and 2011, any additional allocation made to the allowance for credit losses as a result of this review is reflected in the “unallocated line” of the previous table.

Investment Portfolio

Marketable securities that we hold in our investment portfolio, which are classified as “securities available for sale,” may be a source of liquidity; however, we do not anticipate liquidating the investments prior to maturity. As indicated in Note 18 “Fair Values of Assets and Liabilities,” $37.8 million of available for sale securities at December 31, 2015, are classified as Level 3 assets because of inactivity in the market.

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

	2015	2014	2013
	(dollars in thousands)		
Obligations of U.S. Government Agencies:			
Mortgage-Backed Securities—Residential	$20,034	$23,344	$22,639
Obligations of U.S. Government-Sponsored Enterprises:			
Mortgage-Backed Securities—Residential	778,476	947,635	1,009,519
Mortgage-Backed Securities—Commercial	28	72	104
Other Government-Sponsored Enterprises	19,201	269,181	267,971
Obligations of States and Political Subdivisions	27,066	27,058	80
Corporate Securities	1,897	6,682	6,693
Pooled Trust Preferred Collateralized Debt Obligations	42,239	41,926	42,040
Total Debt Securities	888,941	1,315,898	1,349,046
Equities	2,170	1,420	1,420
Total Securities Available for Sale	$891,111	$1,317,318	$1,350,466

As of December 31, 2015, securities available for sale had a fair value of $891.1 million. Gross unrealized gains were $11.9 million and gross unrealized losses were $16.5 million.

The following is a schedule of the contractual maturity distribution of securities available for sale at December 31, 2015.

	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	$2,605	$—	$—	$2,605	0.62	%
After 1 but within 5 years	34,549	—	—	34,549	2.81	
After 5 but within 10 years	55,334	27,066	—	82,400	3.61	
After 10 years	725,251	—	44,136	769,387	2.36	
Total	$817,739	$27,066	$44,136	$888,941	2.48	%

(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 available for sale investment portfolio decreased $426.2 million, or 32%, at December 31, 2015 compared to 2014. Contributing to this decline is the classification of $384.3 million of 2015 investment purchases as held to maturity.

Our investment portfolio includes an amortized cost of $42.2 million in pooled trust preferred collateralized debt obligations at December 31, 2015. The valuation of these securities involves evaluating relevant credit and structural aspects, determining appropriate performance assumptions and performing a discounted cash flow analysis.

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Following is a detail schedule of the amortized cost of securities held to maturity as of December 31, 2015:

	2015 (dollars in thousands)
Obligations of U.S. Government Agencies:	
Mortgage-Backed Securities—Residential	$4,775
Mortgage-Backed Securities—Commercial	16,843
Obligations of U.S. Government-Sponsored Enterprises:	
Mortgage-Backed Securities—Residential	315,609
Mortgage-Backed Securities—Commercial	15,187
Other Government-Sponsored Enterprises	—
Obligations of States and Political Subdivisions	31,910
Corporate Securities	—
Pooled Trust Preferred Collateralized Debt Obligations	—
Total Securities Held to Maturity	$384,324

There were no securities held to maturity as of December 31, 2014 and 2013.

The following is a schedule of the contractual maturity distribution of securities held to maturity at December 31, 2015.

	U.S. Government Agencies and Corporations	States and Political Subdivisions	Total Amortized Cost	Weighted Average Yield	
	(dollars in thousands)				
Within 1 year	$—	$—	$—	—	%
After 1 but within 5 years	—	108	108	1.88	
After 5 but within 10 years	15,187	27,224	42,411	3.05	
After 10 years	337,227	4,578	341,805	2.39	
Total	$352,414	$31,910	$384,324	2.46	%

See Note 8 "Investment Securities," Note 9 "Impairment of Investment Securities" and Note 18 "Fair Values of Assets and Liabilities" for additional information related to the investment portfolio.

Deposits

Total deposits decreased $119.6 million, or 3%, in 2015, primarily due to the run off of time deposits of $240.1 million. Contributing to the change in time deposits is a decrease of $146.3 million in deposits generated from the Certificate of Deposit Account Registry Services program ("CDARS"), an 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:

	2015			2014			2013		
	Amount	%		Amount	%		Amount	%	
	(dollars in thousands)								
3 months or less	$48,429	31	%	$164,879	49	%	$234,295	51	%
Over 3 months through 6 months	22,946	15		34,874	10		85,573	18	
Over 6 months through 12 months	34,974	22		72,470	22		60,739	13	
Over 12 months	51,306	32		61,765	19		84,077	18	
Total	$157,655	100	%	$333,988	100	%	$464,684	100	%

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Short-Term Borrowings and Long-Term Debt
Short-term borrowings increased $404.9 million, or 37%, from $1,105.9 million as of December 31, 2014 to $1,510.8 million at December 31, 2015. Long-term debt decreased $80.1 million, or 50%, from $161.6 million at December 31, 2014 to $81.5 million at December 31, 2015. 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 15 "Short-term Borrowings," Note 16 "Subordinated Debentures" and Note 17 "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, 2015. 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	17	$563	$1,192	$1,290	$6,269	$9,314
Subordinated debentures	16	—	—	—	72,167	72,167
Operating leases	12	3,405	5,875	4,512	10,360	24,152
Total contractual obligations		$3,968	$7,067	$5,802	$88,796	$105,633

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 14 "Interest-Bearing Deposits" of the Consolidated Financial Statements.
In addition, see Note 11 "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, 2015. 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, 2015, a reserve for probable losses of $4.4 million was recorded for unused commitments and letters of credit.

Liquidity
Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. Liquidity risk arises from the possibility that we may not be able to meet our financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, our Board of Directors has established a Liquidity Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on limits approved by our Board of Directors. This policy designates our Asset/Liability Committee ("ALCO") as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our Treasury Department who monitors it by using such measures as a 30 day liquidity stress analysis, 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 $209.9 million, or 3%, during 2015, and comprised 72% of total liabilities at December 31, 2015, as compared to 76% at December 31, 2014. Proceeds from the sale, maturity and redemption of investment securities totaled $470.6 million during 2015 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

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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, 2015 our borrowing capacity at the Federal Reserve related to this program was $641.9 million and there were no amounts outstanding. Additionally, as of December 31, 2015, our maximum borrowing capacity at the Federal Home Loan Bank of Pittsburgh was $1.6 billion and as of that date amounts used against this capacity included $1.4 billion in outstanding borrowings and $20.0 million in letter of credit commitments used for pledging public funds and other non-deposit purposes.

We participate in the Certificate of Deposit Account Registry Services (“CDARS”) program as part of an ALCO strategy to increase and diversify funding sources. As of December 31, 2015, our maximum borrowing capacity under this program was $973.1 million and as of that date there was $3.6 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, 2015, our outstanding certificates of deposits from this program have an average weighted rate of 0.25% and an average original term of 138 days.

We also have available unused federal funds lines with four correspondent banks. These lines have an aggregate commitment of $170.0 million with $4.0 million outstanding as of December 31, 2015.

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 $32.4 million for the year ended December 31, 2015, as well as any cash necessary to repurchase our shares, which totaled $25.4 million for the year ended December 31, 2015. 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 $10.0 million at December 31, 2015. At the end of 2015 the Parent Company had a $15.0 million short-term, unsecured revolving line of credit with another financial institution. As of December 31, 2015, there were no amounts outstanding under this line. 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.

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 0.71 and 0.69 at December 31, 2015 and 2014, 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.

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Following is the gap analysis as of December 31:

2015	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	$2,371,092	$184,323	$315,162	$2,870,577	$1,439,199	$343,538
Investments	115,292	50,950	102,357	268,599	597,263	454,200
Other interest-earning assets	2,808	—	—	2,808	—	—
Total interest-sensitive assets (ISA)	2,489,192	235,273	417,519	3,141,984	2,036,462	797,738
Certificates of deposit	125,403	89,522	139,133	354,058	244,173	4,000
Other deposits	2,476,973	—	—	2,476,973	—	—
Borrowings	1,583,132	140	285	1,583,557	2,487	6,263
Total interest-sensitive liabilities (ISL)	4,185,508	89,662	139,418	4,414,588	246,660	10,263
Gap	$(1,696,316)	$145,611	$278,101	$(1,272,604)	$1,789,802	$787,475
ISA/ISL	0.59	2.62	2.99	0.71	8.26	77.73
Gap/Total assets	25.83 %	2.22 %	4.23 %	19.38 %	27.25 %	11.99 %

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 %

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.

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

	Net interest income change (12 months)			
	-200	-100	+100	+200
	(dollars in thousands)			
December 31, 2015 ($)	$(7,293)	$(2,438)	$916	$1,900
December 31, 2015 (%)	(3.74)%	(1.25)%	0.47%	0.97%
December 31, 2014 ($)	$(5,280)	$(1,414)	$211	$869
December 31, 2014 (%)	(2.85)%	(0.76)%	0.11%	0.47%

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, 2015 ($)	$(11,405)	$(5,132)	$1,842	$3,658
December 31, 2015 (%)	(5.85)%	(2.63)%	0.94%	1.88%
December 31, 2014 ($)	$(11,925)	$(6,532)	$577	$1,511
December 31, 2014 (%)	(6.43)%	(3.52)%	0.31%	0.82%

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current low interest rate environment. Results of the 100 and 200 basis point interest rate decline scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1% and therefore are not modeled to decline 100 or 200 basis points, yet our interest-sensitive assets are able to decline by these amounts. For the years 2015 and 2014, the cost of our interest-bearing liabilities averaged 0.34% and 0.41%, respectively, and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 3.55% and 3.59%, 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.

During the first quarter of 2015, the Company entered into cash flow interest rate swaps in which we extended the duration of $100.0 million of the $1.3 billion LIBOR based loans in our loan portfolio into fixed interest rates for a period of three or four years. These swaps add approximately two bass points of protection to the net interest margin as a hedge against a prolonged low rate environment. A similar cash flow interest rate swap, with a notional amount of $100.0 million, was entered into in 2014. Please refer to Note 7, "Derivatives," for additional information on interest rate swaps.

Asset/liability models require that certain assumptions be made, such as prepayment rates on earning assets and the impact of pricing 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 $4.4 million at December 31, 2015, and is classified in “Other liabilities” on the Consolidated Statements of Financial Condition.

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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 2015, 61 loans totaling $11.9 million were identified as troubled debt restructurings, resulting in specific reserves of $1.3 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 $50.8 million at December 31, 2015 or 1.08% of loans outstanding, compared to $52.1 million or 1.17% of loans outstanding at December 31, 2014. The decrease in the 2015 ratio compared to the 2014 ratio can be attributed to a decline in criticized loans and a reduction in the qualitative factors related to leveraged finance transaction loans. In addition, as of December 31, 2015, several credit measures showed improvement compared to December 31, 2014. The level of criticized loans decreased $6.2 million from $140.1 million at December 31, 2014 to $134.0 million at December 31, 2015 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 99.9% at December 31, 2015 and 94.2% as of December 31, 2014. The allowance for credit losses includes specific allocations of $7.0 million related to nonperforming loans covering 14% of the total nonperforming balance at December 31, 2015 and specific allocations of $9.5 million covering 17% of the total nonperforming balance at December 31, 2014. 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, 2015.

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

	For the Period Ended December 31, 2015			As of December 31, 2015		
	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	$10,332	63.83 %	0.23 %	$31,476	61.91 %	0.67 %
Real estate construction	(76)	(0.47)	—	28	0.05	—
Residential real estate	952	5.88	0.02	10,413	20.48	0.22
Commercial real estate	1,309	8.09	0.03	8,506	16.73	0.18
Loans to individuals	3,670	22.67	0.08	421	0.83	0.01
Total loans, net of unearned income	$16,187	100.00 %	0.36 %	$50,844	100.00 %	1.08 %

As the above table illustrates, commercial, financial, agricultural loans and residential real estate were the most significant portions of the nonperforming loans as of December 31, 2015. See discussions related to the provision for credit losses and loans for more information.

of Operations—2014 Compared to 2013
Summary of 2014 Results
Net income for 2014 was $44.5 million, or $0.48 per diluted share, as compared to a net income of $41.5 million, or $0.43 per diluted share, in 2013. Net income in 2014 was positively impacted by an $8.0 million decrease in provision expense, offset by a $5.7 million increase in operational losses and a $1.0 million decrease in net interest income.
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 program authorized during 2014.
Net interest income, on a fully taxable equivalent basis, for 2014 was $1.7 million, or 1%, lower than 2013, primarily due to a $66.3 million, or 1%, increase in average interest bearing liabilities and a 12 basis point decrease in the net interest margin. Positively affecting net interest income in 2014 was a $100.1 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 3.27% in 2014 compared to 3.39% in 2013.
During the year-ended December 31, 2014, 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 $166.5 million, or 3%, compared to the comparable period in 2013.
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 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 0.41% 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 positively impacted net interest income by $1.9 million. We were able to partially mitigate the impact of lower interest rates and the effect on net interest income through improving the mix of deposits and borrowed funds, disciplined pricing strategies, loan growth and increasing our investment volumes within established interest rate risk management guidelines.
While decreases in interest rates and yields compressed the net interest margin, increases in average earning assets and low cost average interest-bearing liabilities neutralized the effect on net interest income. Changes in volumes of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $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 volume changes primarily attributed to the mix of deposits reduced interest expense by $1.3 million.
Noninterest income, excluding net securities gains (losses) and gains on sale of assets, decreased $3.9 million, or 7%, 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 the Company's registered investment advisory business in the first quarter of 2014.
Total noninterest income increased $0.7 million, or 1%, in 2014 in comparison to the year ended 2013. The most notable change includes a $2.8 million increase in the gain on sale of assets and the gain on sale of loans 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.

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.

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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.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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ITEM 8. Financial Statements and Supplementary Data

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2015	2014
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$66,644	$72,276
Interest-bearing bank deposits	2,808	2,262
Securities available for sale, at fair value	886,560	1,309,819
Securities held to maturity, at amortized cost, (Fair value $382,341 at December 31, 2015)	384,324	—
Other investments	62,952	44,545
Loans held for sale	5,763	2,502
Loans:		
Portfolio loans	4,683,750	4,457,308
Allowance for credit losses	(50,812)	(52,051)
Net loans	4,632,938	4,405,257
Premises and equipment, net	63,454	64,989
Other real estate owned	9,398	7,197
Goodwill	164,500	161,429
Amortizing intangibles, net	1,231	1,665
Bank owned life insurance	182,601	177,567
Other assets	103,717	110,777
Total assets	$6,566,890	$6,360,285
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$1,116,689	$989,027
Interest-bearing	3,079,205	3,326,484
Total deposits	4,195,894	4,315,511
Short-term borrowings	1,510,825	1,105,876
Subordinated debentures	72,167	72,167
Other long-term debt	9,314	89,459
Total long-term debt	81,481	161,626
Other liabilities	59,144	61,127
Total liabilities	5,847,344	5,644,140
Shareholders' Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	—	