FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
May 10, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-11138

First Commonwealth Financial Corporation

(Exact name of registrant as specified in its charter)

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

724-349-7220

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

The number of shares outstanding of issuer s common stock, $1.00 par value, as of May 2, 2011, was 104,906,994.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2011	**December 31, 2010**
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	$ 75,448	$ 69,854
Interest-bearing bank deposits	57,871	4
Securities available for sale, at fair value	1,008,453	967,715
Other investments	46,416	48,859
Loans:		
Portfolio loans	4,074,270	4,218,083
Allowance for credit losses	(76,792)	(71,229)
Net loans	3,997,478	4,146,854
Premises and equipment, net	66,162	66,981
Other real estate owned	28,768	24,700
Goodwill	159,956	159,956
Amortizing intangibles, net	4,987	5,376
Other assets	316,827	322,543
Total assets	$ 5,762,366	$ 5,812,842
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	$ 733,731	$ 706,889
Interest-bearing	3,896,237	3,910,963
Total deposits	4,629,968	4,617,852
Short-term borrowings	155,342	187,861
Subordinated debentures	105,750	105,750
Other long-term debt	73,993	98,748
Total long-term debt	179,743	204,498
Other liabilities	45,181	52,854
Total liabilities	5,010,234	5,063,065
Shareholders Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, $1 par value per share, 200,000,000 shares authorized; 105,515,079 shares issued and 104,859,954 shares outstanding at March 31, 2011; 105,515,079 shares issued and 104,846,194 shares outstanding at December 31, 2010	105,515	105,515

Additional paid-in capital	366,338	366,488
Retained earnings	293,518	291,492
Accumulated other comprehensive loss, net	(2,669)	(2,458)
Treasury stock (655,125 and 668,885 shares at March 31, 2011 and December 31, 2010)	(7,470)	(7,660)
Unearned ESOP shares	(3,100)	(3,600)
Total shareholders equity	752,132	749,777
Total liabilities and shareholders equity	$ 5,762,366	$ 5,812,842

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2011	2010
	(dollars in thousands, except share data)	
Interest Income		
Interest and fees on loans	$ 50,883	$ 57,408
Interest and dividends on investments:		
Taxable interest	8,374	10,467
Interest exempt from federal income taxes	186	2,151
Dividends	17	27
Interest on bank deposits	9	25
Total interest income	59,469	70,078
Interest Expense		
Interest on deposits	9,536	13,580
Interest on short-term borrowings	185	852
Interest on subordinated debentures	1,383	1,375
Interest on other long-term debt	496	1,173
Total interest on long-term debt	1,879	2,548
Total interest expense	11,600	16,980
Net Interest Income	47,869	53,098
Provision for credit losses	13,817	45,020
Net Interest Income after Provision for Credit Losses	34,052	8,078
Noninterest Income		
Change in fair value on impaired securities	1,869	(1,517)
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(1,869)	(1,233)
Net impairment losses	0	(2,750)
Net securities gains	577	420
Trust income	1,718	1,494
Service charges on deposit accounts	3,426	4,152
Insurance and retail brokerage commissions	1,562	1,862
Income from bank owned life insurance	1,357	1,257
Card related interchange income	2,800	2,320
Other income	2,888	2,696
Total noninterest income	14,328	11,451
Noninterest Expense		
Salaries and employee benefits	21,128	22,327
Net occupancy expense	3,732	3,893

Furniture and equipment expense	3,180	3,165
Data processing expense	1,424	1,437
Pennsylvania shares tax expense	1,178	1,057
Intangible amortization	390	657
Collection and repossession expense	1,316	923
FDIC insurance	1,835	1,963
Other professional fees and services	1,125	1,166
Other operating expenses	6,121	6,651
Total noninterest expense	41,429	43,239
Income (Loss) Before Income Taxes	6,951	(23,710)
Income tax provision (benefit)	1,705	(10,542)
Net Income (Loss)	$ 5,246	$ (13,168)
Average Shares Outstanding	104,618,499	85,029,748
Average Shares Outstanding Assuming Dilution	104,623,518	85,029,748
Per Share Data:		
Basic Earnings (Loss) per Share	$ 0.05	$ (0.15)
Diluted Earnings (Loss) per Share	0.05	(0.15)
Cash Dividends Declared per Common Share	0.03	0.03

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at December 31, 2010	$ 105,515	$ 366,488	$ 291,492	$ (2,458)	$ (7,660)	$ (3,600)	$ 749,777
Comprehensive income							
Net income			5,246				5,246
Other comprehensive income, net of tax:							
Unrealized holding losses on securities arising during the period				(1,051)			(1,051)
Non-credit related gains on securities not expected to be sold				1,215			1,215
Reclassification adjustment for gains on securities included in net income				(375)			(375)
Total other comprehensive loss							$ (211)
Total comprehensive income							$ 5,035
Cash dividends declared ($0.03 per share)			(3,138)				(3,138)
Net decrease in unearned ESOP shares						500	500
ESOP market value adjustment ($226, net of $80 tax benefit)		(147)					(147)
Discount on dividend reinvestment plan purchases		(16)					(16)
Tax benefit of stock options exercised		6					6
Treasury stock reissued			(82)		156		74
Restricted stock		7			34		41
Balance at March 31, 2011	$ 105,515	$ 366,338	$ 293,518	$ (2,669)	$ (7,470)	$ (3,100)	$ 752,132

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

(dollars in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at December 31, 2009	$ 86,600	$ 301,523	$ 278,887	$ (6,045)	$ (16,554)	$ (5,600)	$ 638,811
Comprehensive income							
Net loss			(13,168)				(13,168)
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period				2,538			2,538
Non-credit related gains on securities not expected to be sold				802			802
Reclassification adjustment for losses on securities included in net loss				1,524			1,524
Total other comprehensive income							$ 4,864
Total comprehensive loss							$ (8,304)
Cash dividends declared ($0.03 per share)			(2,544)				(2,544)
Net decrease in unearned ESOP shares						500	500
ESOP market value adjustment ($255, net of $89 tax benefit)		(166)					(166)
Discount on dividend reinvestment plan purchases		(17)					(17)
Treasury stock reissued		656	(4,414)		7,494		3,736
Restricted stock			(168)		231		63
Capital issuance	155	845					1,000
Balance at March 31, 2010	$ 86,755	$ 302,841	$ 258,593	$ (1,181)	$ (8,829)	$ (5,100)	$ 633,079

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Operating Activities		
Net income (loss)	$ 5,246	$ (13,168)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for credit losses	13,817	45,020
Deferred tax expense (benefit)	14	(12,247)
Depreciation and amortization	2,407	2,764
Net (gains) losses on securities and other assets	(535)	2,117
Net amortization (accretion) of premiums and discounts on securities	215	(51)
Net amortization of premiums and discounts on long-term debt	(42)	(305)
Income from increase in cash surrender value of bank owned life insurance	(1,357)	(1,257)
Decrease (increase) in interest receivable	78	(595)
Decrease in interest payable	(1,098)	(676)
Increase in income tax payable	1,587	2,780
Other-net	(970)	3,247
Net cash provided by operating activities	19,362	27,629
Investing Activities		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	0	4,953
Transactions with securities available for sale:		
Proceeds from sales	54,965	2,117
Proceeds from maturities and redemptions	72,145	101,725
Purchases	(165,377)	(27,579)
Proceeds from bank owned life insurance	88	0
Proceeds from sale of loans	4,402	0
Proceeds from sales of other assets	2,076	2,904
Net decrease in loans	124,940	31,610
Purchases of premises and equipment	(1,470)	(1,860)
Net cash provided by investing activities	91,769	113,870
Financing Activities		
Net decrease in federal funds purchased	(12,800)	(105,000)
Net decrease in other short-term borrowings	(19,719)	(59,737)
Net increase in deposits	12,143	116,522
Repayments of other long-term debt	(24,213)	(48,809)
Proceeds from issuance of common stock	0	1,000
Discount on dividend reinvestment plan purchases	(16)	(17)
Dividends paid	(3,138)	(2,544)
Proceeds from reissuance of treasury stock	73	3,736

Net cash used in financing activities	(47,670)	(94,849)
Net increase in cash and cash equivalents	63,461	46,650
Cash and cash equivalents at January 1	69,858	89,559
Cash and cash equivalents at March 31	$ 133,319	$ 136,209

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accounting and reporting policies of First Commonwealth Financial Corporation and its subsidiaries (First Commonwealth or Company) conform with generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ from those estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of First Commonwealth s financial position, results of operations, cash flows and changes in shareholders equity as of and for the periods presented.

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year of 2011. These interim financial statements should be read in conjunction with First Commonwealth s 2010 Annual Report on Form 10-K which is available on First Commonwealth s website at http://www.fcbanking.com.

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

Note 2 Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income in the Condensed Consolidated Statements of Changes in Shareholders Equity:

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
Unrealized gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	$ (1,616)	$ 565	$ (1,051)	$ 3,905	$ (1,367)	$ 2,538
Non-credit related gains on securities not expected to be sold	1,869	(654)	1,215	1,233	(431)	802
(Gains) losses realized in net income (loss)	(577)	202	(375)	2,345	(821)	1,524
Net unrealized (losses) gains	(324)	113	(211)	7,483	(2,619)	4,864
Other comprehensive (loss) income	$ (324)	$ 113	$ (211)	$ 7,483	$ (2,619)	$ 4,864

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 3 Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the year for interest and income taxes as well as detail on noncash investing and financing activities.

	For the Three Months Ended March 31, 2011	2010
	(dollars in thousands)	
Cash paid (received) during the year for:		
Interest	$ 12,765	$ 17,999
Income taxes	0	(1,184)
Non-cash investing and financing activities:		
ESOP loan reductions	$ 500	$ 500
Loans transferred to other real estate owned and repossessed assets	6,197	1,812
Gross (decrease) increase in market value adjustment to securities available for sale	(334)	7,483

Note 4 Shares of Common Stock

The following table summarizes the share transactions for the three months ended March 31, 2011 and 2010:

	Shares Issued	Shares in Treasury
Balance, December 31, 2010	105,515,079	668,885
Stock options exercised, net	0	(13,760)
Balance, March 31, 2011	105,515,079	655,125

	Shares Issued	Shares in Treasury
Balance, December 31, 2009	86,600,431	1,448,556
Dividend reinvestment plan	154,899	(659,346)
Directors stock plan	0	(1,894)
Restricted stock nonvested	0	(30,120)
Balance, March 31, 2010	86,755,330	757,196

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 5 Earnings per Share

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

	For the Three Months Ended March 31,	
	2011	**2010**
Weighted-average common shares outstanding	105,515,079	86,622,805
Average treasury stock shares	(663,993)	(1,185,422)
Average unearned ESOP shares	(214,917)	(367,787)
Average unearned nonvested shares	(17,670)	(39,848)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	104,618,499	85,029,748
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	0	0
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	5,019	0
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	104,623,518	85,029,748
Net income (loss)	$ 5,246,000	$ (13,168,000)

At March 31, 2011, there were options to purchase 484,439 shares of common stock outstanding, at a price ranging from $6.90 per share to $14.55 per share and common stock equivalents outstanding of 12,550 shares at a price of $5.70 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At March 31, 2010, there were options to purchase 666,181 shares of common stock outstanding, at a price ranging from $5.29 per share to $14.55 per share and common stock equivalents outstanding of 50,223 shares at a price ranging from $5.70 to $12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

Note 6 Variable Interest Entities

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10, a Variable Interest Entity (VIE) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

First Commonwealth s VIEs are evaluated under the guidance included in FASB Accounting Standards Update (ASU) 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. These VIEs include qualified affordable housing projects that First

Commonwealth has invested in as part of its community reinvestment initiatives. We periodically assess whether or not our variable interests in the

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 6 Variable Interest Entities (Continued)

VIE, based on qualitative analysis, provide us with a controlling interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. We do not have a controlling financial interest in the VIE, which would require consolidation of the VIE, as we do not have the following characteristics: (1) the power to direct the activities that most significantly impact the VIE s economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

First Commonwealth s maximum potential exposure is equal to its carrying value and is summarized in the table below:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	$ 898	$ 925

Note 7 Commitments and Letters of Credit

Standby letters of credit are conditional commitments issued by First Commonwealth to guarantee the performance of a customer to a third party. The contract or notional amount of these instruments reflects the maximum amount of future payments that First Commonwealth could be required to pay under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In addition, many of these commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.

The following table identifies the notional amount of those instruments at:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,406,629	$ 1,471,692
Financial standby letters of credit	63,699	64,348
Performance standby letters of credit	78,211	79,140
Commercial letters of credit	20	20

The current notional amounts outstanding as of March 31, 2011 include financial standby letters of credit of $0.1 million and performance standby letters of credit of $0.5 million issued during the first three months of 2011. There were no commercial letters of credit issued during the first quarter of 2011. A liability of $0.2 million and $0.1 million has been recorded as of March 31, 2011 and December 31, 2010, respectively, which represents the fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued. See Note 13, Fair Value of Assets and Liabilities, for additional information.

11

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 7 Commitments and Letters of Credit (Continued)

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. An evaluation of the credit risk in these instruments resulted in the recording of a liability of $1.1 million as of March 31, 2011 and $1.4 million as of December 31, 2010. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

Note 8 Investment Securities

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

	March 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	$ 35,078	$ 3,801	$ 0	$ 38,879	$ 36,719	$ 3,874	$ 0	$ 40,593
Obligations of U.S. Government-Sponsored Enterprises:								
Mortgage Backed Securities Residential	654,888	24,896	(2,680)	677,104	618,454	26,513	(2,986)	641,981
Mortgage Backed Securities Commercial	225	1	(2)	224	233	1	(1)	233
Other Government- Sponsored Enterprises	235,821	195	(1,198)	234,818	184,531	225	(869)	183,887
Obligations of States and Political Subdivisions	3,665	36	0	3,701	47,175	644	0	47,819
Corporate Securities	14,833	227	(245)	14,815	21,226	494	(344)	21,376
Pooled Trust Preferred Collateralized Debt Obligations	57,972	17	(30,324)	27,665	58,780	16	(32,444)	26,352
Total Debt Securities	1,002,482	29,173	(34,449)	997,206	967,118	31,767	(36,644)	962,241
Equity Securities	10,847	400	0	11,247	5,137	337	0	5,474
Total Securities Available for sale	$ 1,013,329	$ 29,573	$ (34,449)	$ 1,008,453	$ 972,255	$ 32,104	$ (36,644)	$ 967,715

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 8 Investment Securities (Continued)

The amortized cost and fair value of debt securities available for sale at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Due within one year	$ 7,121	$ 7,140
Due after one but within five years	228,784	227,772
Due after five but within ten years	2,811	2,837
Due after ten years	73,575	43,250
	312,291	280,999
Mortgage Backed Securities (a)	690,191	716,207
Total Debt Securities	$ 1,002,482	$ 997,206

(a) Mortgage Backed Securities include an amortized cost of $35 million and a fair value of $39 million for Obligations of U.S. Government Agencies issued by Ginnie Mae. Obligations of U.S. Government-Sponsored Enterprises includes obligations issued by Fannie Mae and Freddie Mac which had an amortized cost of $655 million and a fair value of $677 million.

For the three months ended March 31, 2011, the Company realized proceeds of $55 million from the sale of available-for-sale securities which included $0.8 million in gross gains and $0.2 million in gross losses. For the three months ended March 31, 2010, the Company realized proceeds of $2.1 million from the sale of available-for-sale securities which included $0.4 million in gross gains and no losses.

During the first quarter of 2011, $5.2 million in single issue trust preferred securities and $1.2 million in corporate debentures owned by a non-bank subsidiary of the Company were sold in order to reinvest the proceeds in more liquid assets for that subsidiary. The amounts sold represent the entire portfolio of single issue trust preferred securities and corporate debentures owned by that subsidiary and resulted in a net gain of $0.3 million. Additionally, in the first quarter, the Company continued its strategy to liquidate its obligations of states and political subdivisions portfolio in order to mitigate future credit risk and improve its tax position. Investments in obligations of states and political subdivisions totaled $3.7 million and $47.2 million as of March 31, 2011 and December 31, 2010, respectively. This decline is a result of $1.0 million in maturities and $42.5 million in sales which provided $0.3 million in recognized gains. As of March 31, 2011, none of the remaining investments in obligations of states and political subdivisions were in an unrealized loss position. All of these securities were classified as available for sale.

Securities available for sale with a fair value of $604 million and $660 million were pledged as of March 31, 2011 and December 31, 2010, respectively, to secure public deposits and for other purposes required or permitted by law.

As of March 31, 2011 and December 31, 2010, there were no securities classified as held-to-maturity.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 8 Investment Securities (Continued)

For the three months ended March 31, 2010, net securities gains included $14 thousand in gains and no losses for debt securities held to maturity.

Note 9 Other Investments

As a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of March 31, 2011 and December 31, 2010, our FHLB stock totaled $46.4 million and $48.9 million, respectively and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as temporarily discontinued the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008. In October 2010 and again in February 2011, the FHLB resumed the repurchase of excess stock from its members by repurchasing the lesser of 5% of the members total capital stock outstanding or its total excess capital stock. As a result, $2.5 million of the Company s FHLB stock was repurchased in both October 2010 and February 2011. On April 29, 2011, the FHLB announced that it will repurchase additional stock. Accordingly, $2.3 million of the $46.4 million in stock owned by the Company at March 31, 2011 was repurchased by the FHLB. Decisions regarding any future repurchases of excess capital stock will be made by the FHLB on a quarterly basis.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First Commonwealth evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB s long-term performance, which includes factors such as the following:

- its operating performance;
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of the FHLB; and

its liquidity and funding position.

Management reviewed the FHLB s Form 10-K for the period ended December 31, 2010 filed with the SEC on March 18, 2011 in order to evaluate all of these considerations. First Commonwealth concluded that the par value

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 9 Other Investments (Continued)

of its investment in FHLB stock is recoverable. Accordingly, no impairment charge was recorded on these securities for the three months ended March 31, 2011. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 10 Impairment of Investment Securities

As required by FASB ASC Topic 320, Investments Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in other comprehensive income (OCI). In the first quarter of 2011, no other-than-temporary impairment charges were recognized and $1.9 million in non-credit related gains on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. In the first quarter of 2010, we recognized $2.8 million in other-than-temporary impairment charges on six trust preferred collateralized debt obligations. Additionally, $1.2 million in non-credit related gains on securities not expected to be sold was recorded in OCI.

First Commonwealth utilizes the specific identification method to determine the net gain or loss on debt securities and the average cost method to determine the net gain or loss on equity securities.

In the Condensed Consolidated Statement of Operations, the Change in fair value on impaired securities line represents the change in fair value of securities impaired in the current or previous periods. The change in fair value includes both non-credit and credit related gains or losses. Credit related losses occur when the entire amortized cost of the security will not be recovered. The Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income) line represents the gains and losses on the securities resulting from factors other than credit. The non-credit related gain or loss is disclosed in the Condensed Consolidated Statement of Operations and recognized through other comprehensive income. The Net impairment losses line represents the credit related losses recognized in total noninterest income for the related period.

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and whether we are more likely than not to sell the security. We evaluate whether we are more likely than not to sell debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy, tax position and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, weakness in the U.S. economy, changes in real estate values and additional interest deferrals in our pooled trust preferred collateralized debt obligations. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of FASB ASC Topic 325, Investments Other, and are therefore evaluated for other-than-temporary impairment using management s best estimate of future cash flows. If these estimated cash flows indicate that it is probable that an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FASB ASC Topic 320. There is a risk that First Commonwealth will record other-than-temporary impairment charges in the future. See Note 13, Fair Values of Assets and Liabilities for additional information.

15

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

The following table presents the gross unrealized losses and fair values at March 31, 2011 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
			(dollars in thousands)			
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage Backed Securities Residential	$ 128,510	$ (2,680)	$ 0	$ 0	$ 128,510	$ (2,680)
Mortgage Backed Securities Commercial	146	(2)	29	0	175	(2)
Other Government-Sponsored Enterprises	177,502	(1,198)	0	0	177,502	(1,198)
Corporate Securities	5,027	(84)	4,702	(161)	9,729	(245)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	27,598	(30,324)	27,598	(30,324)
Total Debt Securities	311,185	(3,964)	32,329	(30,485)	343,514	(34,449)
Equity Securities	0	0	0	0	0	0
Total Securities	$ 311,185	$ (3,964)	$ 32,329	$ (30,485)	$ 343,514	$ (34,449)

The following table presents the gross unrealized losses and fair values at December 31, 2010 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(dollars in thousands)			
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage Backed Securities Residential	$ 105,304	$ (2,986)	$ 0	$ 0	$ 105,304	$ (2,986)
Mortgage Backed Securities Commercial	182	(1)	0	0	182	(1)
Other Government-Sponsored Enterprises	126,531	(869)	0	0	126,531	(869)
Corporate Securities	4,482	(73)	5,827	(271)	10,309	(344)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	26,286	(32,444)	26,286	(32,444)
Total Debt Securities	236,499	(3,929)	32,113	(32,715)	268,612	(36,644)

Equity Securities	0	0	0	0	0	0
Total Securities	$ 236,499	$ (3,929)	$ 32,113	$ (32,715)	$ 268,612	$ (36,644)

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

At March 31, 2011, pooled trust preferred collateralized debt obligations accounted for 88% of total unrealized losses, fixed income securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises accounted for 11% of unrealized losses and corporate fixed income comprised 1%. There were no equity securities in an unrealized loss position.

The following table provides information related to our corporate securities as of March 31, 2011:

Corporate Securities

(Single Issue Trust Preferred Securities)

(dollars in thousands)

Name of Issuer	Name of Issuer s Parent Company	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Current Moody s/Fitch Issuer Ratings
BP Bank America Inst	Bank of America Corp	$ 1,021	$ 1,017	$ (4)	Baa3/BBB
BP MBNA Capital	Bank of America Corp	1,024	1,002	(22)	Baa3/BBB
NB Capital Trust II	Bank of America Corp	3,066	3,008	(58)	Baa3/BBB
KeyCorp Capital II	KeyCorp	1,859	2,013	154	Baa3/BBB
First Empire Cap MTB	M&T Bank Corp	4,863	4,702	(161)	Baa2/BBB
First Union Instit Cap I	Wells Fargo Co.	3,000	3,073	73	Baa1/A
Total		$ 14,833	$ 14,815	$ (18)	

As of March 31, 2011, our corporate securities had an amortized cost and an estimated fair value of $14.8 million and were comprised of single issue trust preferred securities issued primarily by money center and large regional banks. Included in the corporate securities portfolio are investments which had a gross unrealized loss of $0.2 million as of March 31, 2011 and $0.3 million as of December 31, 2010. After a review of each of the issuer s asset quality, earnings trend and capital position, it was determined that none of the issues in an unrealized loss position were other-than-temporarily impaired. Additionally, all interest payments on these securities are being made as contractually required.

As of December 31, 2010, our corporate securities were comprised of single issue trust preferred securities as well as some corporate debentures. The single issue trust preferred securities had an amortized cost and estimated fair value of $20.0 million, while our corporate debentures had a book value of $1.2 million and a fair value of $1.3 million.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

The following table provides information related to our pooled trust preferred collateralized debt obligations as of March 31, 2011:

Pooled Trust Preferred Collateralized Debt Obligations

(dollars in thousands)

Deal	Class	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Moody s/ Fitch Ratings	Number of Banks	Deferrals and Defaults as a Percentage of Current Collateral	Excess Subordination as a Percentage of Current Performing Collateral
Pre TSL I	Senior	$ 2,323	$ 2,066	$ (257)	A2/BBB	25	43%	333%
Pre TSL IV	Mezzanine	1,830	815	(1,015)	Ca/CCC	6	27%	30%
Pre TSL V (a)	Mezzanine	50	67	17	Caa3/D	3	100%	0%
Pre TSL VI (a)	Mezzanine	237	196	(41)	Ca/D	5	74%	600%
Pre TSL VII (a)	Mezzanine	4,012	2,402	(1,610)	Ca/C	19	68%	0%
Pre TSL VIII (a)	Mezzanine	1,619	793	(826)	C/C	35	45%	0%
Pre TSL IX(a)	Mezzanine	2,251	965	(1,286)	Ca/C	49	30%	0%
Pre TSL X (a)	Mezzanine	1,299	755	(544)	C/C	55	45%	0%
Pre TSL XII (a)	Mezzanine	5,389	2,747	(2,642)	Ca/C	77	33%	0%
Pre TSL XIII (a)	Mezzanine	11,816	4,281	(7,535)	Ca/C	65	33%	0%
Pre TSL XIV (a)	Mezzanine	12,523	4,621	(7,902)	Ca/C	64	35%	0%
MMCap I	Senior	7,472	6,080	(1,392)	A3/BBB	29	31%	224%
MMCap I (a)	Mezzanine	841	387	(454)	Ca/C	29	31%	5%
MM Comm IX	Mezzanine	6,310	1,490	(4,820)	Caa3/C	33	39%	0%
Total		$ 57,972	$ 27,665	$ (30,307)				

(a) nonaccrual securities

As of March 31, 2011, the book value of our pooled trust preferred collateralized debt obligations totaled $58.0 million with a fair value of $27.7 million, which includes securities comprised of 360 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainder are mezzanine tranches. Two of the pooled issues, representing $9.8 million of the $58.0 million book value, remain above investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of March 31, 2011, after taking into account management s best estimates of future interest deferrals and defaults, nine of our securities had no excess subordination in the tranches we own and five of our securities had excess subordination which ranged from 5% to 600% of the current performing collateral. As of March 31, 2011, ten of our pooled trust preferred collateralized obligations with a fair value of $17.2 million are not receiving full interest payments and therefore are reflected in the table on page 57 as nonperforming securities.

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. In the first three months of 2011, no credit related other-than-temporary impairment charges were recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments we determine a credit related portion and a non-credit related portion of other-than-temporary impairment. The credit related portion is recognized in earnings and represents the expected shortfall in future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the fair value of the security and the amount of credit related impairment. A discounted cash flow analysis provides the best estimate of credit related other-than-temporary impairment for these securities.

Additional information related to the discounted cash flow analysis follows:

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at March 31, 2011. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

Results of a discounted cash flow test are significantly affected by other variables such as the estimate of future cash flows, credit worthiness of the underlying banks and determination of probability of default of the underlying collateral. The following provides additional information for each of these variables:

Estimate of Future Cash Flows Cash flows are constructed in an INTEX cash flow model. INTEX is a proprietary cash flow model recognized as the industry standard for analyzing all types of collateralized debt obligations. It includes each deal s structural features updated with trustee information, including asset-by-asset detail, as it becomes available. For collateral issued by financial institutions with over $15 billion in asset size, our estimate of future cash flows includes a 15% prepayment rate in year 4 and a 2% prepayment rate thereafter. The modeled cash flows are then used to estimate if all the scheduled principal and interest payments of our investments will be returned.

Credit Analysis A quarterly credit evaluation is performed for each of the 360 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer s business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

Probability of Default A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and therefore a 100% probability of default is assigned. However, for

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

some deferring collateral there is the possibility that they become current on interest or principal payments at some point in the future and in those cases a probability that the deferral will ultimately cure is assigned. The probability of default is updated quarterly. As of March 31, 2011, default probabilities for performing collateral ranged from 0.33% to 95%.

Our credit evaluation provides a basis for determining deferral and default probabilities for each underlying piece of collateral. Using the results of the credit evaluation, the next step of the process is to look at pricing of senior debt or credit default swaps for the issuer (or where such information is unavailable, for companies having similar credit profiles as the issuer). The pricing of these market indicators provides the information necessary to determine appropriate default probabilities for each bank.

In addition to the above factors, our evaluation of impairment also includes a stress test analysis which provides an estimate of excess subordination for each tranche. We stress the cash flows of each pool by increasing current default assumptions to the level of defaults which results in an adverse change in estimated cash flows. This stressed breakpoint is then used to calculate excess subordination levels for each pooled trust preferred security. The results of the stress test allows management to identify those pools that are at a greater risk for a future break in cash flows so that we can monitor banks in those pools more closely for potential deterioration of credit quality.

Our cash flow analysis as of March 31, 2011, indicates no additional credit related other-than-temporary impairment has occurred on our pooled trust preferred securities since December 31, 2010. As a result, no other-than-temporary impairment charges were recognized in the first quarter of 2011. Based upon the analysis performed by management, it is probable that nine of our pooled trust preferred securities will experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded in 2008, 2009 and 2010. These securities are identified in the table on page 18 with 0% Excess Subordination as a Percentage of Current Performing Collateral. For the remaining securities listed in that table, our analysis as of March 31, 2011 indicates it is probable that we will collect all contractual principal and interest payments.

Beginning in the fourth quarter of 2010, our estimate of future cash flows for the pooled trust preferred securities began to incorporate potential interest deferral cures. Incorporating potential cures would indicate that there is a probability that some of the banks currently deferring interest payments would resume payments after a five year deferral period. As a result of incorporating a potential cure, the probability of default assigned to the bank would be less than 100% after the fifth year of deferral, thus increasing the estimate of future cash flows. Determining which of the deferring banks should incorporate a potential cure and the probability of default used after year five for those banks are both dependent on a credit evaluation of the bank and a review of other relevant information such as the issuance of new capital. Prior to the fourth quarter of 2010, we did not incorporate potential cures when estimating future cash flows, therefore any bank that was deferring interest payments was assigned a 100% probability of default for all periods until maturity. The use of potential cures in estimating cash flows is attributable to an increase in the occurrence of actual cures and a decrease in the amount of new deferrals, both of which are indications that banking sector issues are stabilizing. Therefore, it is expected that some banks currently deferring interest will not default, but rather, will resume interest payments after their deferral period.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Impairment of Investment Securities (Continued)

The table below provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold:

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Balance, beginning (a)	$ 44,850	$ 36,161
Credit losses on debt securities for which other-than- temporary impairment was not previously recognized	0	0
Additional credit losses on debt securities for which other- than-temporary impairment was previously recognized	0	2,750
Balance, ending	$ 44,850	$ 38,911

(a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods. For the three months ended March 31, the beginning balance represents impairment losses taken before January 1 of the respective year.

In the first quarter of 2011 and 2010, there were no other-than-temporary impairment charges recorded on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. Based on the results of this review, management believes that the equity securities in an unrealized loss position as of March 31, 2011 and 2010 are not other-than-temporarily impaired and will equal or exceed our cost basis within a reasonable period of time.

Note 11 Loans and Allowance for Credit Losses

The following table provides outstanding balances related to each of our loan types:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Commercial, financial, agricultural and other	$ 906,824	$ 913,814
Real estate-construction	184,904	261,482

Real estate-residential	1,102,459	1,127,273
Real estate-commercial	1,336,903	1,354,074
Loans to individuals	543,180	561,440
Total loans	$ 4,074,270	$ 4,218,083

During the first three months of 2011, loans decreased $143.8 million or 3% compared to balances outstanding at December 31, 2010. Declines were experienced in all categories and can be attributed to the following: commercial, financial, agricultural and other decreased primarily due to weaker loan demand; real estate- construction declined as the result of the completion of $115.7 million in construction projects which upon

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

completion were moved to the real estate-commercial category; the decline in real estate residential loans can be attributed to planned runoff in this portfolio; real estate-commercial decreased largely as a result of payoffs by the conduit markets which provided longer term lower rate financing to several borrowers; and loans to individuals declined as the result of a seasonal reduction in indirect auto loans.

Credit Quality Information

As part of the on-going monitoring of credit quality within the loan portfolio, the following credit worthiness categories are used in grading our loans:

Pass	No change in credit rating of borrower. Acceptable levels of risk exist in the relationship.
Other Assets Especially Mentioned (OAEM)	Potential weaknesses that deserve management s close attention. The potential weaknesses may result in deterioration of the repayment prospects or weaken the Bank s credit position at some future date. The credit risk may be relatively minor, yet constitute an undesirable risk in light of the circumstances surrounding the specific credit. No loss of principal or interest is expected.
Substandard	Well-defined weakness or a weakness that jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of deterioration of the borrower s financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard.
Doubtful	Loans with the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable.

The use of creditworthiness categories to grade loans permits management s use of migration analysis to estimate a portion of credit risk. The company s internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed each quarter, at which time management analyzes the results, as well as other external statistics and factors, to track the migration of loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas, loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Credit Quality Information (Continued)

The following tables represent our credit risk profile by creditworthiness:

	March 31, 2011					
	Commercial, financial, agricultural and other	Real estate-construction	Real estate-residential	Real estate-commercial	Loans to individuals	Total
	(dollars in thousands)					
Pass	$ 777,630	$ 109,501	$ 1,090,916	$ 1,051,763	$ 543,150	$ 3,572,960
Non-Pass						
OAEM	31,212	10,703	6,265	83,977	11	132,168
Substandard	97,982	58,165	5,278	201,163	19	362,607
Doubtful	0	6,535	0	0	0	6,535
Total Non-Pass	129,194	75,403	11,543	285,140	30	501,310
Total	$ 906,824	$ 184,904	$ 1,102,459	$ 1,336,903	$ 543,180	$ 4,074,270

	December 31, 2010					
	Commercial, financial, agricultural and other	Real estate-construction	Real estate-residential	Real estate-commercial	Loans to individuals	Total
	(dollars in thousands)					
Pass	$ 778,260	$ 181,348	$ 1,115,825	$ 1,062,400	$ 561,360	$ 3,699,193
Non-Pass						
OAEM	54,318	10,845	6,198	82,361	6	153,728
Substandard	81,236	60,712	5,250	209,313	74	356,585
Doubtful	0	8,577	0	0	0	8,577
Total Non-Pass	135,554	80,134	11,448	291,674	80	518,890

Total	$ 913,814	$ 261,482	$ 1,127,273	$ 1,354,074	$ 561,440	$ 4,218,083

Portfolio Risks

Credit quality of our loan portfolio represents significant risk to our earnings, capital, regulatory agency relationships, investment community and shareholder returns. First Commonwealth devotes a substantial amount of resources to managing this risk primarily through our credit administration department that develops and administers policies and procedures for underwriting, maintaining, monitoring and collecting activities. Credit administration is independent of lending departments and oversight is provided by the Credit Committee of the First Commonwealth Board of Directors.

The credit quality of all bank loan portfolios was negatively affected by the most recent economic recession. First Commonwealth s loan portfolio incurred the most significant stress over the last two years in the out-of-market real estate construction portfolio that were generally of larger size in overvalued real estate markets such as Nevada, Florida, and Arizona and higher risk projects including condominiums, resorts and water parks. The

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Portfolio Risks (Continued)

establishment of an independent credit administration department and recruitment of seasoned credit administration leaders in 2009 and 2010 was a fundamental step in improving credit quality which had a significantly detrimental effect to our financial performance over the past two years. Significant progress has been made with respect to staffing, structure, more disciplined underwriting, geographic markets and size of loan guidelines. However, our organization still has increased credit quality risks due to high levels of classified loans that need to be worked through to resolution, the large amount of loans exceeding recently established internal lending limits, and uncertain economic conditions.

Classified loans, or loans designated OAEM, substandard, doubtful, total $501.3 million at March 31, 2011 decreasing $17.6 million from December 31, 2010. These loans have been evaluated with respect to the adequacy of the allowance for credit losses which we believe is adequate at this time. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates. The credit administration department continually monitors and evaluates those evolving factors in order to adjust the allowance for credit losses.

Our local markets of western Pennsylvania, which comprise 93% of our loan portfolio, have not been as intensely affected by the most recent economic recession as some other regions of the country and are evidencing a quicker economic recovery. We believe focusing on originating loans in our local markets will improve ongoing credit quality in the portfolios.

Risk factors associated with commercial real estate and construction related loans are monitored closely since this is an area that represents the most significant portion of the loan portfolio and has experienced the most stress during the economic downturn and has evidenced little recovery strength.

Credit quality measures as of March 31, 2011 were mixed as delinquency 90 days and greater and still accruing increased $2.0 million compared to December 31, 2010 while loans classified as non-pass decreased in all categories for a total of $17.6 million.

In addition, during the first quarter of 2011, eleven relationships were classified as troubled debt restructuring. These loans increased the nonperforming loans balance by $10.6 million and increased specific reserves by $2.3 million. The most significant addition was a $6.9 million commercial real estate loan for a retail strip development in western Pennsylvania which upon maturity of a balloon payment was provided a six month maturity extension.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Age Analysis of Past Due Loans by Segment

The following tables delineate the aging analysis of the recorded investments in past due loans as of March 31, 2011 and December 31, 2010. Also included in these tables are loans that are 90 days or more past due and still accruing because they are either well-secured or in the process of collection.

	March 31, 2011						
	30-59 Days past due	60-89 Days past due	90 Days and greater and still accruing	Nonaccrual	Total past due and nonaccrual	Current	Total
	(dollars in thousands)						
Commercial, financial, agricultural and other	$ 2,241	$ 1,265	$ 1,178	$ 27,021	$ 31,705	$ 875,119	$ 906,824
Real estate-construction	701	101	0	45,734	46,536	138,368	184,904
Real estate-residential	6,562	2,278	10,795	2,264	21,899	1,080,560	1,102,459
Real estate-commercial	3,695	927	1,426	53,714	59,762	1,277,141	1,336,903
Loans to individuals	2,185	572	1,803	7	4,567	538,613	543,180
Total	$ 15,384	$ 5,143	$ 15,202	$ 128,740	$ 164,469	$ 3,909,801	$ 4,074,270

	December 31, 2010						
	30-59 Days past due	60-89 Days past due	90 Days and greater and still accruing	Nonaccrual	Total past due and nonaccrual	Current	Total
	(dollars in thousands)						
Commercial, financial, agricultural and other	$ 2,195	$ 513	$ 731	$ 25,586	$ 29,025	$ 884,789	$ 913,814
Real estate-construction	363	2,279	0	44,670	47,312	214,170	261,482
Real estate-residential	8,322	2,545	10,144	2,249	23,260	1,104,013	1,127,273
Real estate-commercial	5,076	5,302	459	43,586	54,423	1,299,651	1,354,074
Loans to individuals	2,745	848	1,869	60	5,522	555,918	561,440
Total	$ 18,701	$ 11,487	$ 13,203	$ 116,151	$ 159,542	$ 4,058,541	$ 4,218,083

Nonaccrual Loans

The previous table summarizes nonaccrual loans by loan segment. The company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loans reach a certain number of days past due. Generally loans 90 days or more past due are placed on nonaccrual status.

When a loan is placed on nonaccrual, the accrued unpaid interest receivable is reversed against interest income and all future payments received are applied as a reduction to the loan principal. Generally, the loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Impaired Loans

Management considers loans to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all loan segments. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, except when the sole source or repayment for the loan is the operation or liquidation of collateral. In these cases, management uses the current fair value of collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonperforming loans increased $23.0 million to $140.5 million at March 31, 2011 compared to $117.5 million at December 31, 2010. Unfunded commitments related to nonperforming loans were $24.2 million at March 31, 2011 and an off balance sheet reserve of $0.2 million has been established for these commitments.

Significant impaired loans as of March 31, 2011 include the following:

$20.5 million, the remaining portion of a $44.1 million line of credit to a western Pennsylvania real estate developer. A settlement plan with the borrower and three other lenders was finalized in the fourth quarter of 2010 and resulted in an $8.0 million principal payment and a $15.4 million partial charge-off.

An $11.3 million commercial loan to a waste management company in Pennsylvania that experienced lower volumes during the economic downturn. We funded an additional $1.1 million to this company for construction of a new cell for the landfill in the first quarter of 2011.

A $10.0 million commercial real estate loan for an office building in western Pennsylvania. The borrower is experiencing cash flow problems as the result of two tenants not renewing their lease. Foreclosure proceedings were completed on the collateralized property in May of 2011.

A $9.6 million student housing construction loan in eastern Pennsylvania that incurred construction delays and cost overruns.

An $8.6 million participation construction loan for a Nevada resort development. Developers are abandoning upgrade and expansion plans for the currently operating resort.

An $8.6 million residential lot development loan in central Pennsylvania due to slower sales than originally projected.

A $7.2 million participation loan on a recently completed condominium project in North Carolina. Sales of completed units have slowed.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Impaired Loans (Continued)

A $6.9 million loan on a retail strip development in western Pennsylvania that was classified as a troubled debt restructured loan as a result of a maturity extension provided for a balloon payment that was due in the first quarter of 2011. This loan is in accruing status and is current on principal and interest payments.

$5.7 million, the remaining portion of a $39.6 million construction loan for a Florida condominium project. Continued market deterioration and questions concerning the developer s willingness and capacity to complete the project resulted in a decline in the estimated collateral value from an as completed to an as is raw land valuation. A $34.2 million charge-off was recorded on this loan in the second quarter of 2010 and an additional $0.7 million charge off was recorded in the first quarter of 2011.

$4.0 million, the remaining portion of a $20.8 million construction loan for a Florida condominium project. In addition to the $14.4 million in charge-offs previously recorded on this loan, a $1.4 million charge-off was recorded in the first quarter of 2011 as a result of an updated appraisal which showed continuing decline in real estate values.

A $3.1 million loan with a western Pennsylvania manufacturer that has filed for bankruptcy. The loan is primarily secured by real estate.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of March 31, 2011 and December 31, 2010. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated based on month-end balances of the loans of the period reported.

	March 31, 2011		
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**
	(dollars in thousands)		
With no related allowance recorded:			
Commercial, financial, agricultural and other	$ 1,831	$ 4,570	$ 0
Real estate-construction	15,196	64,857	0
Real estate-residential	1,944	2,428	0

Real estate-commercial	16,349	16,670	0
Loans to individuals	7	7	0
Subtotal	35,327	88,532	0
With an allowance recorded:			
Commercial, financial, agricultural and other	27,779	28,082	8,280
Real estate-construction	30,902	32,973	14,168
Real estate-residential	375	473	2
Real estate-commercial	46,081	46,722	9,915
Loans to individuals	0	0	0
Subtotal	105,137	108,250	32,365
Total	$ 140,464	$ 196,782	$ 32,365

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Impaired Loans (Continued)

	December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(dollars in thousands)		
With no related allowance recorded:			
Commercial, financial, agricultural and other	$ 2,963	$ 5,745	$ 0
Real estate-construction	14,319	62,317	0
Real estate-residential	1,961	2,534	0
Real estate-commercial	22,970	23,830	0
Loans to individuals	60	125	0
Subtotal	42,273	94,551	0
With an allowance recorded:			
Commercial, financial, agricultural and other	23,118	38,940	6,709
Real estate-construction	30,351	34,954	11,855
Real estate-residential	344	344	56
Real estate-commercial	21,401	21,626	5,287
Loans to individuals	0	0	0
Subtotal	75,214	95,864	23,907
Total	$ 117,487	$ 190,415	$ 23,907

	For the Three Months Ended March 31, 2011		For the Three Months Ended March 31, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)			
With no related allowance recorded:				
Commercial, financial, agricultural and other	$ 1,408	$ 3	$ 3,791	$ 0

Real estate-construction	15,738	0	14,537	0
Real estate-residential	1,938	1	1,958	0
Real estate-commercial	18,989	11	12,905	4
Loans to individuals	25	0	15	0
Subtotal	38,098	15	33,206	4
With an allowance recorded:				
Commercial, financial, agricultural and other	25,911	2	48,738	2
Real estate-construction	30,061	1	57,887	0
Real estate-residential	375	0	732	0
Real estate-commercial	32,242	13	15,215	0
Loans to individuals	0	0	0	0
Subtotal	88,589	16	122,572	2
Total	$ 126,687	$ 31	$ 155,778	$ 6

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

Impaired Loans (Continued)

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. As of March 31, 2011, troubled debt restructured loans totaled $11.7 million. In 2011, 11 relationships, comprised of 21 loans, totaling $10.6 million were identified as troubled debt restructurings resulting in specific reserves of $2.3 million. As of December 31, 2010, troubled debt restructured loans totaled $1.3 million. In the first three months of 2010, there were no loan modifications determined to be troubled debt restructurings. The following table provides detail related to loans identified as troubled debt restructurings during the first three months of 2011:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(dollars in thousands)	
Troubled Debt Restructurings			
Commercial, financial, agricultural, and other	8	$ 2,268	$ 2,267
Real estate-construction	3	354	364
Real estate-residential	0	0	0
Real estate-commercial	10	7,948	7,943
Loans to individuals	0	0	0
Total	21	$ 10,570	$ 10,574

29

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

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

	For the Three Months Ended March 31, 2011						
	Commercial, financial agricultural and other	**Real estate-construction**	**Real estate-residential**	**Real estate-commercial**	**Loans to individuals**	**Unallocated**	**Total**
	(dollars in thousands)						
Allowance for credit losses:							
Beginning balance	$ 21,700	$ 18,002	$ 5,454	$ 16,913	$ 4,215	$ 4,945	$ 71,229
Charge-offs	(960)	(4,999)	(1,104)	(766)	(779)	0	(8,608)
Recoveries	104	0	19	76	155	0	354
Provision	1,592	5,776	2,313	3,951	270	(85)	13,817
Ending balance	$ 22,436	$ 18,779	$ 6,682	$ 20,174	$ 3,861	$ 4,860	$ 76,792
Ending balance: individually evaluated for impaired	$ 8,280	$ 14,168	$ 2	$ 9,915	$ 0	$ 0	$ 32,365
Ending balance: collectively evaluated for impaired	$ 14,156	$ 4,611	$ 6,680	$ 10,259	$ 3,861	$ 4,860	$ 44,427
Loans:							
Ending balance	$ 906,824	$ 184,904	$ 1,102,459	$ 1,336,903	$ 543,180		$ 4,074,270
Ending balance: individually evaluated for impaired	$ 29,165	$ 45,915	$ 946	$ 60,941	$ 0		$ 136,967
Ending balance: collectively evaluated for impaired	$ 877,659	$ 138,989	$ 1,101,513	$ 1,275,962	$ 543,180		$ 3,937,303

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 11 Loans and Allowance for Credit Losses (Continued)

	For the Three Months Ended March 31, 2010						
	Commercial, financial agricultural and other	Real estate-construction	Real estate-residential	Real estate-commercial (dollars in thousands)	Loans to individuals	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 31,369	$ 18,224	$ 5,847	$ 17,526	$ 4,731	$ 3,942	$ 81,639
Charge-offs	(851)	(3,713)	(1,544)	(999)	(1,069)	0	(8,176)
Recoveries	73	0	22	37	110	0	242
Provision	4,392	40,880	688	(1,979)	893	146	45,020
Ending balance	$ 34,983	$ 55,391	$ 5,013	$ 14,585	$ 4,665	$ 4,088	$ 118,725
Ending balance: individually evaluated for impaired	$ 23,619	$ 49,163	$ 8	$ 1,400	$ 0	$ 0	$ 74,190
Ending balance: collectively evaluated for impaired	$ 11,364	$ 6,228	$ 5,005	$ 13,185	$ 4,665	$ 4,088	$ 44,535
Loans:							
Ending balance	$ 1,117,661	$ 426,916	$ 1,178,679	$ 1,316,312	$ 555,841		$ 4,595,409
Ending balance: individually evaluated for impaired	$ 52,137	$ 83,633	$ 1,966	$ 24,233	$ 0		$ 161,969
Ending balance: collectively evaluated for impaired	$ 1,065,524	$ 343,283	$ 1,176,713	$ 1,292,079	$ 555,841		$ 4,433,440

Note 12 Income Taxes

At March 31, 2011 and December 31, 2010, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. If applicable, First Commonwealth will record interest and penalties as a component of noninterest expense. Federal and state tax years 2007 through 2010 were open for examination as of March 31, 2011.

Note 13 Fair Values of Assets and Liabilities

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

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 13 Fair Values of Assets and Liabilities (Continued)

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

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

Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange (NYSE). Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 securities include equity holdings comprised of publicly traded bank stocks which were priced using quoted market prices.

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

The fair values for Mortgage Backed Securities Residential and Mortgage Backed Securities Commercial were based on market data for these types of asset classes including broker quotes and trade and bid prices.

Obligations of States and Political Subdivisions fair value is based on pricing models that incorporated other benchmark quoted securities with similar issuer, credit support, state of issuance and credit rating.

The equity investments included in Level 2 are based on broker prices and are included in Level 2 because they are not traded on an active exchange market.

Other Investments is comprised of FHLB stock whose fair value is based on its par value. Additional information on FHLB stock is provided in Note 9, Other investments.

Interest rate derivatives are reported at fair value utilizing Level 2 inputs and are included in Other assets and Other liabilities. First Commonwealth values its interest rate swap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the U.S. Dollar yield curve includes cash LIBOR rates from overnight to three months, Eurodollar futures contracts and swap rates from three years to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 14, Derivatives.

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 13 Fair Values of Assets and Liabilities (Continued)

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

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

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

The fair values for the corporate securities included in Level 3, which include our single issue trust preferred securities, were obtained from pricing sources with reasonable pricing transparency, taking into account other unobservable inputs related to the risks for each issuer. These valuations were classified as Level 3 due to the inactivity in the respective markets.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks, thrifts and bank holding companies in the U.S. There has been little or no active trading in these securities for approximately twenty-four months; therefore it was more appropriate to determine fair value using a discounted cash flow analysis. Detail on our process for determining the appropriate cash flows for this analysis is provided in Note 10, Impairment of Investment Securities. The discount rate applied to the cash flows is determined by evaluating the current market yields for comparable corporate and structured credit products along with an evaluation of the risks associated with the cash flows of the comparable security. Due to the fact that there is no active market for the pooled trust preferred collateralized debt obligations, one key reference point is the market yield for the single issue trust preferred securities issued by banks and thrifts for which there is more activity than for the pooled securities. Adjustments are then made to reflect the credit and structural differences between these two security types.

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 13 Fair Values of Assets and Liabilities (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at March 31, 2011:

	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Securities Available for Sale				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	$ 0	$ 38,879	$ 0	$ 38,879
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage Backed Securities Residential	0	677,104	0	677,104
Mortgage Backed Securities Commercial	0	224	0	224
Other Government-Sponsored Enterprises	0	234,818	0	234,818
Obligations of States and Political Subdivisions	0	3,701	0	3,701
Corporate Securities	0	0	14,815	14,815
Pooled Trust Preferred Collateralized Debt Obligations	0	0	27,665	27,665
Total Debt Securities	0	954,726	42,480	997,206
Equities	1,525	8,152	1,570	11,247
Total Securities Available for Sale	1,525	962,878	44,050	1,008,453
Other Investments	0	46,416	0	46,416
Other Assets (a)	0	13,945	0	13,945
Total Assets	$ 1,525	$ 1,023,239	$ 44,050	$ 1,068,814
Other Liabilities (a)	$ 0	$ 14,461	$ 0	$ 14,461
Total Liabilities	$ 0	$ 14,461	$ 0	$ 14,461

(a) Non-hedging interest rate derivatives

34

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 13 Fair Values of Assets and Liabilities (Continued)

For the three months ended March 31, 2011, there were no transfers between fair value Levels 1 and 2.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2010:

	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Securities Available for Sale				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	$ 0	$ 40,593	$ 0	$ 40,593
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage Backed Securities Residential	0	641,981	0	641,981
Mortgage Backed Securities Commercial	0	233	0	233
Other Government-Sponsored Enterprises	0	183,887	0	183,887
Obligations of States and Political Subdivisions	0	47,476	343	47,819
Corporate Securities	0	0	21,376	21,376
Pooled Trust Preferred Collateralized Debt Obligations	0	0	26,352	26,352
Total Debt Securities	0	914,170	48,071	962,241
Equities	1,462	2,442	1,570	5,474
Total Securities Available for Sale	1,462	916,612	49,641	967,715
Other Investments	0	48,859	0	48,859
Other Assets (a)	0	15,939	0	15,939
Total Assets	$ 1,462	$ 981,410	$ 49,641	$ 1,032,513
Other Liabilities (a)	$ 0	$ 16,663	$ 0	$ 16,663
Total Liabilities	$ 0	$ 16,663	$ 0	$ 16,663

(a) Non-hedging interest rate derivatives

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 13 Fair Values of Assets and Liabilities (Continued)

For the three month period ending March 31, 2011, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Securities Available for sale	**Obligations of States and Political Subdivisions**	**Corporate Securities**	**Pooled Trust Preferred Collateralized Debt Obligations (dollars in thousands)**	**Equity Securities**	**Total Estimated Fair Value**
Balance, beginning of quarter	$ 343	$ 21,376	$ 26,352	$ 1,570	$ 49,641
Total gains or losses					
Included in earnings	4	314	0	0	318
Included in other comprehensive income	(20)	(175)	2,122	0	1,927
Purchases, issuances, sales and settlements					
Purchases	0	0	0	0	0
Issuances	0	0	0	0	0
Sales	(327)	(6,700)	0	0	(7,027)
Settlements	0	0	(809)	0	(809)
Transfers into Level 3	0	0	0	0	0
Balance, end of quarter	$ 0	$ 14,815	$ 27,665	$ 1,570	$