

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

May 08, 2008

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**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, 2008

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)

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**Pennsylvania**  
(State or other jurisdiction of

**25-1428528**  
(I.R.S. Employer

incorporation or organization)

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 ☒ 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. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ 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 ☒.

The number of shares outstanding of issuer's common stock, \$1.00 Par Value as of April 29, 2008 was 73,186,647.

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**FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Unaudited)

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|                                                                                                                                                                                                              | March 31, 2008         | December 31, 2007 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                                                                                                                                              | (dollars in thousands, |                   |
|                                                                                                                                                                                                              | except share data)     |                   |
| <b>Assets</b>                                                                                                                                                                                                |                        |                   |
| Cash and due from banks                                                                                                                                                                                      | \$ 92,554              | \$ 100,791        |
| Interest-bearing bank deposits                                                                                                                                                                               | 219                    | 1,719             |
| Securities available for sale, at fair value                                                                                                                                                                 | 1,623,788              | 1,574,217         |
| Securities held to maturity, at amortized cost, (Fair value \$67,451 in 2008 and \$72,928 in 2007)                                                                                                           | 65,935                 | 71,497            |
| Loans:                                                                                                                                                                                                       |                        |                   |
| Portfolio loans                                                                                                                                                                                              | 3,893,202              | 3,697,843         |
| Unearned income                                                                                                                                                                                              | (19)                   | (24)              |
| Allowance for credit losses                                                                                                                                                                                  | (41,613)               | (42,396)          |
| Net loans                                                                                                                                                                                                    | 3,851,570              | 3,655,423         |
| Premises and equipment, net                                                                                                                                                                                  | 69,191                 | 69,487            |
| Other real estate owned                                                                                                                                                                                      | 3,280                  | 2,172             |
| Goodwill                                                                                                                                                                                                     | 159,956                | 159,956           |
| Amortizing intangibles, net                                                                                                                                                                                  | 12,609                 | 13,441            |
| Other assets                                                                                                                                                                                                 | 239,877                | 234,915           |
| Total assets                                                                                                                                                                                                 | \$ 6,118,979           | \$ 5,883,618      |
| <b>Liabilities</b>                                                                                                                                                                                           |                        |                   |
| Deposits (all domestic):                                                                                                                                                                                     |                        |                   |
| Noninterest-bearing                                                                                                                                                                                          | \$ 542,331             | \$ 523,203        |
| Interest-bearing                                                                                                                                                                                             | 3,778,337              | 3,824,016         |
| Total deposits                                                                                                                                                                                               | 4,320,668              | 4,347,219         |
| Short-term borrowings                                                                                                                                                                                        | 642,869                | 354,201           |
| Other liabilities                                                                                                                                                                                            | 48,259                 | 65,464            |
| Subordinated debentures                                                                                                                                                                                      | 105,750                | 105,750           |
| Other long-term debt                                                                                                                                                                                         | 426,955                | 442,196           |
| Total long-term debt                                                                                                                                                                                         | 532,705                | 547,946           |
| Total liabilities                                                                                                                                                                                            | 5,544,501              | 5,314,830         |
| <b>Shareholders' Equity</b>                                                                                                                                                                                  |                        |                   |
| Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued                                                                                                                           | -0-                    | -0-               |
| Common stock, \$1 par value per share, 100,000,000 shares authorized; 75,100,431 shares issued and 73,161,726 shares outstanding in 2008; 75,100,431 shares issued and 73,128,612 shares outstanding in 2007 | 75,100                 | 75,100            |
| Additional paid-in capital                                                                                                                                                                                   | 206,498                | 206,889           |
| Retained earnings                                                                                                                                                                                            | 317,058                | 319,246           |

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|                                                                                                                |              |              |
|----------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Accumulated other comprehensive income (loss), net                                                             | 7,215        | (147)        |
| Treasury stock (1,938,705 and 1,971,819 shares at March 31, 2008 and December 31, 2007, respectively, at cost) | (22,293)     | (22,700)     |
| Unearned ESOP shares                                                                                           | (9,100)      | (9,600)      |
| Total shareholders' equity                                                                                     | 574,478      | 568,788      |
| Total liabilities and shareholders' equity                                                                     | \$ 6,118,979 | \$ 5,883,618 |

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

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Unaudited)

## CONSOLIDATED STATEMENTS OF INCOME

|                                                              | For the Quarter Ended<br>March 31,        |               |
|--------------------------------------------------------------|-------------------------------------------|---------------|
|                                                              | 2008                                      | 2007          |
|                                                              | (dollars in thousands, except share data) |               |
| <b>Interest Income</b>                                       |                                           |               |
| Interest and fees on loans                                   | \$ 62,067                                 | \$ 63,913     |
| Interest and dividends on investments:                       |                                           |               |
| Taxable interest                                             | 15,531                                    | 16,145        |
| Interest exempt from Federal income taxes                    | 3,595                                     | 3,371         |
| Dividends                                                    | 609                                       | 733           |
| Interest on Federal funds sold                               | 0                                         | 24            |
| Interest on bank deposits                                    | 5                                         | 11            |
| <b>Total interest income</b>                                 | <b>81,807</b>                             | <b>84,197</b> |
| <b>Interest Expense</b>                                      |                                           |               |
| Interest on deposits                                         | 31,033                                    | 31,585        |
| Interest on short-term borrowings                            | 3,705                                     | 4,946         |
| Interest on subordinated debentures                          | 1,911                                     | 2,117         |
| Interest on other long-term debt                             | 4,074                                     | 4,298         |
| <b>Total interest on long-term debt</b>                      | <b>5,985</b>                              | <b>6,415</b>  |
| <b>Total interest expense</b>                                | <b>40,723</b>                             | <b>42,946</b> |
| <b>Net Interest Income</b>                                   | <b>41,084</b>                             | <b>41,251</b> |
| Provision for credit losses                                  | 3,179                                     | 2,979         |
| <b>Net Interest Income after Provision for Credit Losses</b> | <b>37,905</b>                             | <b>38,272</b> |
| <b>Non-Interest Income</b>                                   |                                           |               |
| Net securities gains                                         | 501                                       | 605           |
| Trust income                                                 | 1,532                                     | 1,418         |
| Service charges on deposit accounts                          | 4,425                                     | 4,165         |
| Insurance commissions                                        | 1,277                                     | 730           |
| Income from bank owned life insurance                        | 1,487                                     | 1,490         |
| Card related interchange income                              | 1,753                                     | 1,485         |
| Other income                                                 | 2,481                                     | 1,533         |
| <b>Total non-interest income</b>                             | <b>13,456</b>                             | <b>11,426</b> |
| <b>Non-Interest Expense</b>                                  |                                           |               |
| Salaries and employee benefits                               | 20,330                                    | 20,284        |
| Net occupancy expense                                        | 3,907                                     | 3,353         |
| Furniture and equipment expense                              | 3,078                                     | 2,717         |
| Advertising expense                                          | 628                                       | 1,095         |
| Data processing expense                                      | 1,051                                     | 954           |
| Pennsylvania shares tax expense                              | 1,271                                     | 1,469         |
| Intangible amortization                                      | 831                                       | 870           |
| Other expenses                                               | 7,760                                     | 7,027         |

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|                                              |                  |                  |
|----------------------------------------------|------------------|------------------|
| Total non-interest expense                   | 38,856           | 37,769           |
| <b>Income before income taxes</b>            | <b>12,505</b>    | <b>11,929</b>    |
| Provision for income taxes                   | 1,384            | 1,034            |
| <b>Net Income</b>                            | <b>\$ 11,121</b> | <b>\$ 10,895</b> |
| Average Shares Outstanding                   | 72,452,875       | 73,113,823       |
| Average Shares Outstanding Assuming Dilution | 72,559,668       | 73,370,678       |
| <b>Per Share Data:</b>                       |                  |                  |
| Basic Earnings per Share                     | \$ 0.15          | \$ 0.15          |
| Diluted Earnings per Share                   | \$ 0.15          | \$ 0.15          |
| Cash Dividends Declared per Common Share     | \$ 0.17          | \$ 0.17          |

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

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Unaudited)

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands)

|                                                                     | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss), net | Treasury<br>Stock | Unearned<br>ESOP<br>Shares | Total<br>Shareholders'<br>Equity |
|---------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------------------------------------------------|-------------------|----------------------------|----------------------------------|
| <b>Balance at December 31, 2007</b>                                 | \$ 75,100       | \$ 206,889                       | \$ 319,246           | \$ (147)                                                    | \$ (22,700)       | \$ (9,600)                 | \$ 568,788                       |
| Cumulative effect from adoption of EITF Issue No. 06-4 (net of tax) | -0-             | -0-                              | (984)                | -0-                                                         | -0-               | -0-                        | (984)                            |
| <b>Balance at January 1, 2008</b>                                   | 75,100          | 206,889                          | 318,262              | (147)                                                       | (22,700)          | (9,600)                    | 567,804                          |
| Comprehensive income                                                |                 |                                  |                      |                                                             |                   |                            |                                  |
| Net income                                                          | -0-             | -0-                              | 11,121               | -0-                                                         | -0-               | -0-                        | 11,121                           |
| Other comprehensive                                                 |                 |                                  |                      |                                                             |                   |                            |                                  |
| income, net of tax:                                                 |                 |                                  |                      |                                                             |                   |                            |                                  |
| Unrealized holding                                                  |                 |                                  |                      |                                                             |                   |                            |                                  |
| gains on securities                                                 |                 |                                  |                      |                                                             |                   |                            |                                  |
| arising during the                                                  |                 |                                  |                      |                                                             |                   |                            |                                  |
| period                                                              | -0-             | -0-                              | -0-                  | 7,688                                                       | -0-               | -0-                        | 7,688                            |
| Less: reclassification                                              |                 |                                  |                      |                                                             |                   |                            |                                  |
| adjustment for                                                      |                 |                                  |                      |                                                             |                   |                            |                                  |
| gains on securities                                                 |                 |                                  |                      |                                                             |                   |                            |                                  |
| included in net income                                              | -0-             | -0-                              | -0-                  | (326)                                                       | -0-               | -0-                        | (326)                            |
| <b>Total other comprehensive income</b>                             |                 |                                  |                      |                                                             |                   |                            | 7,362                            |
| <b>Total comprehensive income</b>                                   |                 |                                  |                      |                                                             |                   |                            | 18,483                           |
| Cash dividends declared                                             | -0-             | -0-                              | (12,325)             | -0-                                                         | -0-               | -0-                        | (12,325)                         |
| Net decrease in unearned ESOP shares                                | -0-             | -0-                              | -0-                  | -0-                                                         | -0-               | 500                        | 500                              |
| Discount on dividend reinvestment plan purchases                    | -0-             | (226)                            | -0-                  | -0-                                                         | -0-               | -0-                        | (226)                            |
| Treasury stock reissued                                             | -0-             | (165)                            | -0-                  | -0-                                                         | 375               | -0-                        | 210                              |
| Restricted stock                                                    | -0-             | -0-                              | -0-                  | -0-                                                         | 32                | -0-                        | 32                               |
| <b>Balance at March 31, 2008</b>                                    | \$ 75,100       | \$ 206,498                       | \$ 317,058           | \$ 7,215                                                    | \$ (22,293)       | \$ (9,100)                 | \$ 574,478                       |

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



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### FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

#### ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Unaudited)

#### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands)

|                                                                                                          | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss), net | Treasury<br>Stock | Unearned<br>ESOP<br>Shares | Total<br>Shareholders'<br>Equity |
|----------------------------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------------------------------------------------|-------------------|----------------------------|----------------------------------|
| <b>Balance at December 31, 2006</b>                                                                      | \$ 75,100       | \$ 208,313                       | \$ 322,415           | \$ (7,914)                                                  | \$ (14,953)       | \$ (11,600)                | \$ 571,361                       |
| Comprehensive income                                                                                     |                 |                                  |                      |                                                             |                   |                            |                                  |
| Net income                                                                                               | -0-             | -0-                              | 10,895               | -0-                                                         | -0-               | -0-                        | 10,895                           |
| Other comprehensive income, net of tax:                                                                  |                 |                                  |                      |                                                             |                   |                            |                                  |
| Unrealized holding gains on securities arising during the period                                         | -0-             | -0-                              | -0-                  | 2,035                                                       | -0-               | -0-                        | 2,035                            |
| Less: reclassification adjustment for gains on securities included in net income                         | -0-             | -0-                              | -0-                  | (393)                                                       | -0-               | -0-                        | (393)                            |
| Reclassification adjustment for losses realized in net income as a result of terminated cash flow hedges | -0-             | -0-                              | -0-                  | 48                                                          | -0-               | -0-                        | 48                               |
| Total other comprehensive income                                                                         |                 |                                  |                      |                                                             |                   |                            | 1,690                            |
| Total comprehensive income                                                                               |                 |                                  |                      |                                                             |                   |                            | 12,585                           |
| Cash dividends declared                                                                                  | -0-             | -0-                              | (12,576)             | -0-                                                         | -0-               | -0-                        | (12,576)                         |
| Net decrease in unearned ESOP shares                                                                     | -0-             | -0-                              | -0-                  | -0-                                                         | -0-               | 500                        | 500                              |
| Discount on dividend reinvestment plan purchases                                                         | -0-             | (227)                            | -0-                  | -0-                                                         | -0-               | -0-                        | (227)                            |
| Treasury stock reissued                                                                                  | -0-             | (128)                            | -0-                  | -0-                                                         | 815               | -0-                        | 687                              |
| <b>Balance at March 31, 2007</b>                                                                         | \$ 75,100       | \$ 207,958                       | \$ 320,734           | \$ (6,224)                                                  | \$ (14,138)       | \$ (11,100)                | \$ 572,330                       |

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

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Unaudited)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                             | For the Three Months Ended<br>March 31, |           |
|---------------------------------------------------------------------------------------------|-----------------------------------------|-----------|
|                                                                                             | 2008                                    | 2007      |
|                                                                                             | (dollars in thousands)                  |           |
| <b>Operating Activities</b>                                                                 |                                         |           |
| Net income                                                                                  | \$ 11,121                               | \$ 10,895 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                         |           |
| Provision for credit losses                                                                 | 3,179                                   | 2,979     |
| Deferred tax benefit                                                                        | (279)                                   | (1,312)   |
| Depreciation and amortization                                                               | 2,507                                   | 2,014     |
| Net (gains) losses on sales of securities and other assets                                  | (562)                                   | 554       |
| Net amortization of premiums and discounts on securities                                    | 52                                      | 279       |
| Net amortization of premiums and discounts on long-term debt                                | (1,121)                                 | (1,174)   |
| Income from increase in cash surrender value of bank owned life insurance                   | (1,487)                                 | (1,490)   |
| Decrease in interest receivable                                                             | 299                                     | 3,037     |
| Decrease in interest payable                                                                | (1,463)                                 | (206)     |
| Increase in income taxes payable                                                            | 1,202                                   | 662       |
| Other-net                                                                                   | (25,119)                                | (5,340)   |
| Net cash (used in) provided by operating activities                                         | (11,671)                                | 10,898    |
| <b>Investing Activities</b>                                                                 |                                         |           |
| Transactions in securities held to maturity:                                                |                                         |           |
| Proceeds from maturities and redemptions                                                    | 5,685                                   | 489       |
| Transactions in securities available for sale:                                              |                                         |           |
| Proceeds from sales                                                                         | 2,424                                   | 789       |
| Proceeds from maturities and redemptions                                                    | 103,230                                 | 130,198   |
| Purchases                                                                                   | (143,572)                               | (41,982)  |
| Proceeds from sales of other assets                                                         | 1,662                                   | 1,654     |
| Net decrease in interest-bearing deposits with banks                                        | 1,500                                   | 522       |
| Net (increase) decrease in loans                                                            | (201,686)                               | 76,622    |
| Purchases of premises and equipment                                                         | (2,084)                                 | (4,015)   |
| Net cash (used in) provided by investing activities                                         | (232,841)                               | 164,277   |
| <b>Financing Activities</b>                                                                 |                                         |           |
| Repayments of other long-term debt                                                          | (42,120)                                | (13,463)  |
| Proceeds from issuance of long-term debt                                                    | 28,500                                  | -0-       |
| Discount on dividend reinvestment plan purchases                                            | (226)                                   | (226)     |
| Dividends paid                                                                              | (12,320)                                | (12,566)  |
| Net increase (decrease) in Federal funds purchased                                          | 3,900                                   | (75,700)  |
| Net increase (decrease) in other short-term borrowings                                      | 284,768                                 | (114,419) |
| Net (decrease) increase in deposits                                                         | (26,437)                                | 29,515    |
| Proceeds from sale of treasury stock                                                        | 210                                     | 687       |
| Net cash provided by (used in) financing activities                                         | 236,275                                 | (186,172) |

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|                                           |           |           |
|-------------------------------------------|-----------|-----------|
| Net decrease in cash and cash equivalents | (8,237)   | (10,997)  |
| Cash and cash equivalents at January 1    | 100,791   | 95,134    |
| Cash and cash equivalents at March 31     | \$ 92,554 | \$ 84,137 |

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

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

March 31, 2008

(Unaudited)

**Note 1 Basis of Presentation**

The consolidated financial statements include the accounts of First Commonwealth Financial Corporation and its wholly owned subsidiaries (First Commonwealth). All material intercompany transactions have been eliminated in consolidation. The accounting and reporting policies of First Commonwealth conform with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement 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, 2008 and 2007 are not necessarily indicative of the results that may be expected for the full year or any other interim period. These interim financial statements should be read in conjunction with First Commonwealth's 2007 Annual Report on Form 10-K which is available on First Commonwealth's website at <http://www.fcbanking.com>. First Commonwealth's website also provides additional information of interest to investors and clients, including other regulatory filings made to the Securities and Exchange Commission, press releases, historical stock prices, dividend declarations, corporate governance information, policies, and documents as well as information about products and services offered by First Commonwealth. First Commonwealth includes its website address in this Quarterly Report on Form 10-Q only as an inactive textual reference and does not intend it to be an active link to First Commonwealth's website.

**Note 2 Supplemental Comprehensive Income Disclosures**

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

|                                                                                                          | March 31, 2008         |                             |                         | March 31, 2007    |                             |                         |
|----------------------------------------------------------------------------------------------------------|------------------------|-----------------------------|-------------------------|-------------------|-----------------------------|-------------------------|
|                                                                                                          | (dollars in thousands) |                             |                         |                   |                             |                         |
|                                                                                                          | Pre-tax<br>Amount      | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount | Pre-tax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount |
| Unrealized gains on securities:                                                                          |                        |                             |                         |                   |                             |                         |
| Unrealized holding gains arising during the period                                                       | \$ 11,828              | \$ (4,140)                  | \$ 7,688                | \$ 3,131          | \$ (1,096)                  | \$ 2,035                |
| Less: reclassification adjustment for gains included in net income                                       | (501)                  | 175                         | (326)                   | (605)             | 212                         | (393)                   |
| Reclassification adjustment for losses realized in net income as a result of terminated cash flow hedges | -0-                    | -0-                         | -0-                     | 74                | (26)                        | 48                      |
| Net unrealized gains                                                                                     | 11,327                 | (3,965)                     | 7,362                   | 2,600             | (910)                       | 1,690                   |
| Other comprehensive income                                                                               | \$ 11,327              | \$ (3,965)                  | \$ 7,362                | \$ 2,600          | \$ (910)                    | \$ 1,690                |

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

March 31, 2008

(Unaudited)

**Note 3 Supplemental Cash Flow Disclosures**

|                                                                     | <b>For the Three Months<br/>Ended March 31,<br/>2008      2007<br/>(dollars in thousands)</b> |           |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------|
| Cash paid for:                                                      |                                                                                               |           |
| Interest                                                            | \$ 40,947                                                                                     | \$ 39,093 |
| Income taxes                                                        | \$ 700                                                                                        | \$ 750    |
| Noncash investing and financing activities:                         |                                                                                               |           |
| ESOP loan reductions                                                | \$ 500                                                                                        | \$ 500    |
| Loans transferred to other real estate owned and repossessed assets | \$ 2,712                                                                                      | \$ 1,716  |
| Unrealized gains (losses) on securities available for sale, net     | \$ 11,327                                                                                     | \$ 2,526  |

**Note 4 Variable Interest Entities**

In December 2003, the Financial Accounting Standards Board ( FASB ) issued FIN 46(R), Consolidation of Variable Interest Entities. As defined by FIN 46(R), 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 FIN 46(R), 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.

As part of its community reinvestment initiatives, First Commonwealth invests in qualified affordable housing projects as a limited partner. First Commonwealth receives Federal affordable housing tax credits and rehabilitation tax credits for these limited partnership investments. First Commonwealth's maximum potential exposure to these partnerships is \$3.3 million, which consists of the limited partnership investments as of March 31, 2008. Based on FIN 46(R), First Commonwealth has determined that these investments will not be consolidated but continue to be accounted for under the equity method whereby First Commonwealth's portion of partnership losses are recognized as incurred.

**Note 5 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, 2008 (dollars in thousands):

|                                       |              |
|---------------------------------------|--------------|
| Commitments to extend credit          | \$ 1,331,572 |
| Financial standby letters of credit   | \$ 79,210    |
| Performance standby letters of credit | \$ 25,214    |



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

March 31, 2008

(Unaudited)

**Note 5 Commitments and Letters of Credit (continued)**

The current notional amounts outstanding above include financial standby letters of credit of \$7.4 million and performance standby letters of credit of \$1.3 million issued during the first three months of 2008. A liability of \$446 thousand has been recorded which represents the fair value of letters of credit issued in 2007 and 2008.

**Note 6 Other-Than-Temporary Impairment of Investments**

The following table presents the gross unrealized losses and fair values at March 31, 2008 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding (dollars in thousands):

| Description of Securities                 | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|-------------------------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                                           | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government Corporations and Agencies | \$ -0-              | \$ -0-            | \$ -0-            | \$ -0-            | \$ -0-     | \$ -0-            |
| U.S. Government Agency CMO and MBS        | 41,008              | (83)              | 163,826           | (1,194)           | 204,834    | (1,277)           |
| Corporate Securities                      | 77,615              | (7,159)           | 28,194            | (3,778)           | 105,809    | (10,937)          |
| Municipal Securities                      | 42,388              | (1,155)           | 841               | (30)              | 43,229     | (1,185)           |
| Other Mortgage Backed Securities          | -0-                 | -0-               | -0-               | -0-               | -0-        | -0-               |
| Total Debt Securities                     | 161,011             | (8,397)           | 192,861           | (5,002)           | 353,872    | (13,399)          |
| Equities                                  | 9,319               | (758)             | 651               | (448)             | 9,970      | (1,206)           |
| Total Securities                          | \$ 170,330          | \$ (9,155)        | \$ 193,512        | \$ (5,450)        | \$ 363,842 | \$ (14,605)       |

Management does not believe any individual loss as of March 31, 2008 represents an other-than-temporary impairment. The unrealized losses are predominantly attributable to changes in interest rates and general market conditions and not from the deterioration of the creditworthiness of the issuer. Management has both the intent and ability to hold the securities represented in the table for the time necessary to collect the contractual principal and interest of the debt securities and the cost of the equity securities.

**Note 7 Income Taxes**

At January 1, 2008 and March 31, 2008, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. First Commonwealth will record interest and penalties as a component of non-interest expense. Federal and state tax years 2005 through 2007 were open for examination as of January 1, 2008.

**Note 8 Fair Values of Assets and Liabilities**

Statement of Financial Accounting Standards No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 and Statement of Financial Accounting Standards No. 157 ( SFAS 157 ), Fair Value Measurements became effective January 1, 2008. SFAS 159 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. SFAS 157 defines fair value and the methods used for measuring fair value as well as requiring additional

disclosures; however, it does not expand the use of fair value measurements.

First Commonwealth elected not to measure any existing financial instruments at fair value under SFAS 159.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

March 31, 2008

(Unaudited)

**Note 8 Fair Values of Assets and Liabilities (continued)**

FASB Staff Position FIN 157-2 Effective Date of FASB Statement No. 157 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). First Commonwealth has elected to apply this deferral to all nonfinancial assets and nonfinancial liabilities that are measured on a nonrecurring basis. All nonfinancial assets are included in the Other assets category of the Consolidated Statements of Financial Condition.

In accordance with SFAS 157, First Commonwealth groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at March 31, 2008.

|                               | Total        | Level 1<br>(dollars in thousands) | Level 2      | Level 3  |
|-------------------------------|--------------|-----------------------------------|--------------|----------|
| Securities Available for Sale | \$ 1,623,788 | \$ 21,573                         | \$ 1,599,674 | \$ 2,541 |
| Other Assets                  | 6,489        | -0-                               | 6,489        | -0-      |
| Total                         | \$ 1,630,277 | \$ 21,573                         | \$ 1,606,163 | \$ 2,541 |
| Other Liabilities             | \$ 6,489     | \$ -0-                            | \$ 6,489     | \$ -0-   |

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows at March 31, 2008:

Securities Available for Sale  
(dollars in thousands)

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|                                                                                                                                                                                                           |    |       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-------|
| Balance, beginning of quarter                                                                                                                                                                             | \$ | 2,604 |
| Total gains (losses) realized/unrealized                                                                                                                                                                  |    | (63)  |
| Purchases, settlements, pay downs, and maturities                                                                                                                                                         |    | -0-   |
| Balance, end of quarter                                                                                                                                                                                   | \$ | 2,541 |
| The amount of total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains (losses) relating to assets still held at reporting date |    |       |
|                                                                                                                                                                                                           | \$ | (63)  |

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### FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

#### ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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(Unaudited)

#### Note 9 Derivative Instruments

First Commonwealth has interest rate derivatives that are not designated as hedging instruments. The derivatives relate to interest rate swaps that First Commonwealth enters into with customers to allow customers to convert variable rate loans to a fixed rate. First Commonwealth pays interest to the customer at a floating rate on the notional amount and receives interest from the customer at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the customer, an offsetting interest rate swap is entered into with another financial institution. First Commonwealth pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the customer, and receives interest from the financial institution for the same floating rate on the same notional amount. The swaps were evaluated using the credit risk of the clients and the financial institution to ensure there was not a material impact to the market value of the swaps.

#### Note 10 New Accounting Pronouncements

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161 ( SFAS 161 ) Disclosures about Derivative Instruments and Hedging Activities- an amendment of FASB Statement No. 133. Effective for fiscal years and interim periods beginning after November 15, 2008, SFAS 161 amends and expands the disclosure requirements of Statement No. 133 by requiring enhanced disclosures for how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations; and how derivative instruments and related items affect an entity's financial position, financial performance and cash flows. SFAS 161 only relates to disclosures and therefore will not have an impact on First Commonwealth's financial condition or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ( SFAS 160 ) Noncontrolling Interests in Consolidated Financial Statements, which is an amendment of Accounting Research Bulletin No. 51 Consolidated Financial Statements. The statement is effective for fiscal years beginning after December 15, 2008 and was issued at the same time as Statement of Financial Accounting Standards No. 141(R) Business Combinations to ensure the requirements of the statements were consistent. SFAS 160 establishes accounting and reporting standards for the noncontrolling ownership interests in a consolidated subsidiary, including the presentation of the ownership interest in the balance sheet, the income statement impact of the noncontrolling ownership interest, accounting for changes in ownership or deconsolidation of a subsidiary, and disclosure requirements. First Commonwealth currently does not have any consolidated subsidiaries with a noncontrolling ownership interest.

In December 2007, the FASB also issued Statement of Financial Accounting Standards No. 141(revised) ( SFAS 141(R) ) Business Combinations, which will apply to any business combination entered into with an acquisition date that is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at fair value on the date of acquisition with limited exceptions. SFAS 141(R) also changes the accounting and disclosures for certain items related to business combinations to more accurately reflect the cost of the acquisition. The adoption of SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ( SFAS 159 ) The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. Effective for fiscal years beginning after November 15, 2007, SFAS 159 permits entities to irrevocably elect to measure select financial instruments and certain other items at fair value. The unrealized gains and losses

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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(Unaudited)

Note 10 New Accounting Pronouncements (continued)

are required to be included in earnings each reporting period for the items that fair value measurement is elected. SFAS 159 currently did not have an impact on First Commonwealth's financial condition or results of operations because management elected not to measure any existing financial instruments at fair value per SFAS 159 at this time; however, in the future we may elect to adopt SFAS 159 for select financial instruments.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ( SFAS 157 ) Fair Value Measurements. Prior to SFAS 157 there were different definitions for fair value in the various accounting pronouncements that required fair value measurement, and there was limited guidance for applying the definitions, which created inconsistencies. Effective for fiscal years beginning after November 15, 2007, SFAS 157 defines fair value and the methods used for measuring fair value as well as requiring additional disclosures; however, it does not expand the use of fair value measurements. FASB issued Staff Position FIN 157-2 Effective Date of FASB Statement No. 157 in February 2008, and it delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). First Commonwealth has elected to apply this deferral to all nonfinancial assets and nonfinancial liabilities that are measured on a nonrecurring basis. The implementation of SFAS 157 for financial instruments did not have a material impact on First Commonwealth's financial condition or results of operations.

In September 2006, the FASB Emerging Issues Task Force issued EITF 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. Therefore, EITF 06-4 would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF 06-4 was effective for fiscal years beginning after December 15, 2007, and the adoption did not have a material impact on First Commonwealth's financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 ( SFAS 158 ) Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132R. This Statement requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions, effective for fiscal years ending after December 15, 2008. The implementation is not expected to have a material impact on First Commonwealth's financial condition or results of operations.

In June 2006, the FASB Emerging Issues Task Force issued EITF 06-11 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires that tax benefits received for dividends related to share-based payments that are charged to retained earnings be recognized as an increase to additional paid-in capital and be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 was effective for dividends declared in fiscal years beginning after December 15, 2007, and the implementation did not have a material impact on First Commonwealth's financial condition or results of operations.

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### FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ( First Commonwealth ) for the three months ended March 31, 2008 and 2007, and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in this Form 10-Q.

#### **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that describe our future plans, strategies and expectations. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believe, expect, anticipate, intend, plan, estimate or words of similar meaning, or future or conditional verbs such as will, would, should, could or may. All forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control and which may cause our actual results, performance or achievements to differ materially from the results, performance or achievements contemplated by the forward-looking statements. These risks and uncertainties include, among other things:

Competitive pressures among depository and other financial institutions nationally and in our market areas may increase significantly.

Adverse changes in the economy or business conditions, either nationally or in our market areas, could increase credit-related losses and expenses and/or limit growth.

Increases in defaults by borrowers and other delinquencies could result in increases in our provision for credit losses and related expenses.

Our inability to manage growth effectively, including the successful expansion of our customer support, administrative infrastructure and internal management systems, could adversely affect our results of operations and prospects.

Fluctuations in interest rates and market prices could reduce our net interest margin and asset valuations and increase our expenses.

The consequences of continued bank acquisitions and mergers in our market areas, resulting in fewer but much larger and financially stronger competitors, could increase competition for financial services to our detriment.

Our continued growth will depend in part on our ability to enter new markets successfully and capitalize on other growth opportunities.

Changes in legislative or regulatory requirements applicable to us and our subsidiaries could increase costs, limit certain operations and adversely affect results of operations.

Changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations may increase our tax expense or adversely affect our customers' businesses.

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Other risks and uncertainties described in this report and the other reports that First Commonwealth files with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

**RESULTS OF OPERATIONS**

**SUMMARY OF RESULTS**

Earnings growth continues to be a challenge in this unusual interest rate environment, however, First Commonwealth has experienced positive developments during the first quarter of 2008 compared to the first quarter of 2007 which include:

An increase in net income of \$226 thousand, or 2.1%.

Total loan increase of \$189.7 million, which includes significant commercial loan growth.

Significant non-interest income growth of \$2.0 million, or 17.8%.

The lack of liquidity in the credit and capital markets during the first quarter of 2008 has provided us with an opportunity to grow our loan portfolio without having to sacrifice asset quality. First Commonwealth is not a participant or underwriter in the sub-prime mortgage loan or collateralized debt marketplace and therefore does not have any exposure to risks associated with these activities. All mortgage backed securities in First Commonwealth's investment portfolio are AAA rated and backed by U.S. Government agencies.

First Commonwealth reported first quarter 2008 net income of \$11.1 million or \$0.15 per diluted share compared to \$10.9 million or \$0.15 per diluted share in the same period last year. The return on average equity and average assets was 7.73% and 0.75%, respectively, during the first quarter of 2008 compared to 7.64% and 0.74%, respectively, for the first quarter of 2007.

Net income increased \$226 thousand, or 2.1%, from the comparable period last year primarily due to an increase in non-interest income, partly offset by a decline in net interest income, a larger provision for credit losses and higher non-interest expense. Income tax expense increased \$350 thousand for the first quarter of 2008 compared to the same period in 2007. Nontaxable income and tax credits had a smaller impact on the effective tax rate in the first quarter of 2008 due to a \$576 thousand increase in pretax income compared to the same period last year.

The following table illustrates the impact on diluted earnings per share of changes in certain components of net income for the first three months of 2008 compared to the first three months of 2007:

|                                                 |         |
|-------------------------------------------------|---------|
| Net income per diluted share, prior year period | \$ 0.15 |
| Increase (decrease) from changes in:            |         |
| Insurance commissions                           | 0.01    |
| Other operating income                          | 0.01    |
| Occupancy and equipment costs                   | (0.01)  |
| Advertising expense                             | 0.01    |
| Other operating expenses                        | (0.01)  |
| Provision for income taxes                      | (0.01)  |
| Net income per diluted share                    | \$ 0.15 |

Net Interest Income

Net interest income, which is our primary source of revenue, is the difference between interest income from earning assets (loans, securities and Federal funds sold) and interest expense paid on liabilities (deposits, repurchase agreements, 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 earning assets and interest-bearing

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

**RESULTS OF OPERATIONS (continued)**

**Net Interest Income (continued)**

liabilities. The net interest margin is expressed as the percentage of net interest income, on a fully tax equivalent basis, to average earning assets. To compare the tax exempt asset yields to taxable yields, amounts are adjusted to the pretax equivalent amounts based on the marginal corporate Federal tax rate of 35%. The tax equivalent adjustment to net interest income was \$3.6 million and \$3.7 million for the first quarter of 2008 and 2007.

Net interest income decreased \$167 thousand, or 0.40%, for the quarter ended March 31, 2008 compared to the same period in 2007. Interest income decreased \$2.4 million primarily due to a decline of 31 basis points, or 0.31%, in the yield on interest-earning assets that was partly offset by a \$56.6 million increase in average interest-earning assets. Interest expense decreased \$2.2 million as the rate paid on interest-bearing liabilities decreased 24 basis points, or 0.24%, which was partly offset by a \$34.5 million increase in average interest-bearing liabilities.

The increase of \$56.6 million in average interest-earning assets in the first quarter of 2008 compared to the first quarter of 2007 was driven by an increase in average loans of \$98.1 million, partly offset by a decrease in average investment securities of \$39.6 million. The \$34.5 million increase in average interest-bearing liabilities was mainly due to an increase of \$23.4 million in average borrowings in the first quarter of 2008 compared to the same period in 2007 which was primarily used to fund the growth in interest-earning assets.

The net interest margin for the three months ended March 31, 2008 decreased only eight basis points, or 0.08%, to 3.28%, compared with 3.36% in the first quarter of 2007 despite significant Federal Reserve Bank reductions of 200 basis points, or 2%, in short-term rates during the first quarter of 2008.

First Commonwealth uses simulation models to help manage exposure to changes in interest rates. A discussion of the effects of changing interest rates is included in the Market Risk section of this discussion. Interest and fees on loans for the three months ended March 31, 2008 decreased \$1.8 million, or 2.9%, compared to the same period in 2007. The first quarter 2008 decrease was a result of a 45 basis point, or 0.45%, decrease in the yield on loans partly offset by an increase of \$98.1 million in average loans.

Interest income on investments decreased \$514 thousand in the first quarter of 2008 from the first quarter of 2007 mainly due to a \$39.6 million decline in the average balance of investment securities. Interest on deposits decreased \$552 thousand compared to the same period in 2007 due to lower rates paid on deposits partly offset by increased balances. Average interest-bearing deposits rose \$11.1 million with increases being recorded in time deposits of \$54.0 million partly offset by decreases in interest-bearing demand deposits of \$9.4 million and savings deposits of \$33.5 million. The cost of deposits decreased nine basis points, or .09%, to 2.88% in the first quarter of 2008 compared to the same period in 2007. In our management of deposit levels and mix, we continue to evaluate the cost of time deposits compared to alternative funding sources as we balance our goal of providing customers with competitive rates while also minimizing our cost of funds.

Interest expense on short-term borrowings decreased \$1.2 million, or 25.1%, for the first quarter of 2008 compared to the same period in 2007. This decrease was primarily due to a 156 basis point, or 1.56% decline in rates.

Interest expense on long-term debt decreased \$430 thousand, or 6.7%, for the first quarter of 2008 compared to the same period in 2007. The decrease was primarily due to the \$32.3 million decrease in average long-term debt for the first quarter of 2008 compared to the first quarter of 2007.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

## AND RESULTS OF OPERATIONS

**RESULTS OF OPERATIONS (continued)*****Net Interest Income (continued)***

The following is an analysis of the average balance sheets and net interest income for the three months ended March 31:

|                                                     | Average Balance Sheets and Net Interest Income Analysis |                    |                         |                    |                    |                         |
|-----------------------------------------------------|---------------------------------------------------------|--------------------|-------------------------|--------------------|--------------------|-------------------------|
|                                                     | 2008                                                    |                    |                         | 2007               |                    |                         |
|                                                     | (dollars in thousands)                                  |                    |                         |                    |                    |                         |
|                                                     | Average<br>Balance                                      | Income/<br>Expense | Yield<br>or<br>Rate (a) | Average<br>Balance | Income/<br>Expense | Yield<br>or<br>Rate (a) |
| <b>Assets</b>                                       |                                                         |                    |                         |                    |                    |                         |
| Interest-earning assets:                            |                                                         |                    |                         |                    |                    |                         |
| Interest-bearing deposits with banks                | \$ 546                                                  | \$ 5               | 3.71%                   | \$ 622             | \$ 11              | 6.75%                   |
| Tax-free investment securities                      | 320,191                                                 | 3,595              | 6.95                    | 300,025            | 3,371              | 7.01                    |
| Taxable investment securities                       | 1,321,117                                               | 16,140             | 4.91                    | 1,380,899          | 16,878             | 4.96                    |
| Federal funds sold                                  | 43                                                      | -0-                | 2.86                    | 1,871              | 24                 | 5.30                    |
| Loans, net of unearned income (b)(c)                | 3,835,587                                               | 62,067             | 6.69                    | 3,737,477          | 63,913             | 7.14                    |
| Total interest-earning assets                       | 5,477,484                                               | 81,807             | 6.27                    | 5,420,894          | 84,197             | 6.58                    |
| <b>Noninterest-earning assets:</b>                  |                                                         |                    |                         |                    |                    |                         |
| Cash                                                | 73,860                                                  |                    |                         | 83,093             |                    |                         |
| Allowance for credit losses                         | (42,358)                                                |                    |                         | (43,321)           |                    |                         |
| Other assets                                        | 487,546                                                 |                    |                         | 485,980            |                    |                         |
| Total noninterest-earning assets                    | 519,048                                                 |                    |                         | 525,752            |                    |                         |
| Total Assets                                        | \$ 5,996,532                                            |                    |                         | \$ 5,946,646       |                    |                         |
| <b>Liabilities and Shareholders' Equity</b>         |                                                         |                    |                         |                    |                    |                         |
| Interest-bearing liabilities:                       |                                                         |                    |                         |                    |                    |                         |
| Interest-bearing demand deposits (d)                | \$ 573,121                                              | \$ 1,747           | 1.23%                   | \$ 582,560         | \$ 2,571           | 1.79%                   |
| Savings deposits (d)                                | 1,089,059                                               | 5,348              | 1.98                    | 1,122,522          | 6,081              | 2.20                    |
| Time deposits                                       | 2,164,394                                               | 23,938             | 4.45                    | 2,110,361          | 22,933             | 4.41                    |
| Short-term borrowings                               | 493,776                                                 | 3,705              | 3.02                    | 438,139            | 4,946              | 4.58                    |
| Long-term debt                                      | 549,016                                                 | 5,985              | 4.38                    | 581,290            | 6,415              | 4.48                    |
| Total interest-bearing liabilities                  | 4,869,366                                               | 40,723             | 3.36                    | 4,834,872          | 42,946             | 3.60                    |
| <b>Noninterest-bearing liabilities and capital:</b> |                                                         |                    |                         |                    |                    |                         |
| Noninterest-bearing demand deposits (d)             | 510,150                                                 |                    |                         | 503,477            |                    |                         |
| Other liabilities                                   | 38,054                                                  |                    |                         | 30,027             |                    |                         |
| Shareholders' equity                                | 578,962                                                 |                    |                         | 578,270            |                    |                         |

|                                                              |              |       |              |       |
|--------------------------------------------------------------|--------------|-------|--------------|-------|
| Total noninterest-bearing funding sources                    | 1,127,166    |       | 1,111,774    |       |
| Total Liabilities and Shareholders' Equity                   | \$ 5,996,532 |       | \$ 5,946,646 |       |
| Net Interest Income and Net Yield on Interest-Earning Assets | \$ 41,084    | 3.28% | \$ 41,251    | 3.36% |

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

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

## AND RESULTS OF OPERATIONS

**RESULTS OF OPERATIONS (continued)****Net Interest Income (continued)**

The following table shows the effect of changes in volumes and rates on interest income and interest expense for the three months ended March 31:

|                                      | Analysis of Changes in Net Interest Income<br>2008 Change from 2007<br>(dollars in thousands) |                            |                              |
|--------------------------------------|-----------------------------------------------------------------------------------------------|----------------------------|------------------------------|
|                                      | Total<br>Change                                                                               | Change<br>Due to<br>Volume | Change<br>Due to<br>Rate (a) |
| Interest-earning assets:             |                                                                                               |                            |                              |
| Interest-bearing deposits with banks | \$ (6)                                                                                        | \$ (1)                     | \$ (5)                       |
| Tax-free investment securities       | 224                                                                                           | 349                        | (125)                        |
| Taxable investment securities        | (738)                                                                                         | (731)                      | (7)                          |
| Federal funds sold                   | (24)                                                                                          | (24)                       | -0-                          |
| Loans                                | (1,846)                                                                                       | 1,727                      | (3,573)                      |
| Total interest income                | (2,390)                                                                                       | 1,320                      | (3,710)                      |
| Interest-bearing liabilities:        |                                                                                               |                            |                              |
| Interest-bearing demand deposits     | (824)                                                                                         | (42)                       | (782)                        |
| Savings deposits                     | (733)                                                                                         | (181)                      | (552)                        |
| Time deposits                        | 1,005                                                                                         | 587                        | 418                          |
| Short-term borrowings                | (1,241)                                                                                       | 628                        | (1,869)                      |
| Long-term debt                       | (430)                                                                                         | (355)                      | (75)                         |
| Total interest expense               | (2,223)                                                                                       | 637                        | (2,860)                      |
| Net interest income                  | \$ (167)                                                                                      | \$ 683                     | \$ (850)                     |

(a) Changes in interest income or expense not arising solely as a result of volume or rate variances are allocated to rate variances due to interest sensitivity of consolidated assets and liabilities.

**Provision for Credit Losses**

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

The provision for credit losses for the first quarter of 2008 increased \$200 thousand compared to the first quarter of 2007. While First Commonwealth experienced payoffs on loans that carried specific allocated reserves that resulted in an improvement in credit quality, additional

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provisions were warranted due to the growth in the commercial portfolio. During the first quarter, two nonaccrual loans were paid off, which resulted in charge-offs of \$1.5 million; however, the prior year allocations for these loans exceeded these charge-offs. As a result, net credit losses exceeded the provision by \$783 thousand.

The allowance for credit losses was \$41.6 million at March 31, 2008, which represents a ratio of 1.08% of average loans outstanding compared to 1.16% reported at March 31, 2007. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at March 31, 2008.

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**RESULTS OF OPERATIONS (continued)****Provision for Credit Losses (continued)**

Below is an analysis of the consolidated allowance for credit losses for the three months ended March 31:

|                                             | 2008<br>(dollars in thousands) | 2007<br>(dollars in thousands) |
|---------------------------------------------|--------------------------------|--------------------------------|
| Balance, beginning of year                  | \$ 42,396                      | \$ 42,648                      |
| Loans charged off:                          |                                |                                |
| Commercial, financial and agricultural      | 1,018                          | 477                            |
| Loans to individuals                        | 933                            | 1,125                          |
| Real estate-construction                    | 26                             | -0-                            |
| Real estate-commercial                      | 2,029                          | 114                            |
| Real estate-residential                     | 389                            | 958                            |
| Lease financing receivables                 | -0-                            | 7                              |
| Total loans charged off                     | 4,395                          | 2,681                          |
| Recoveries of loans previously charged off: |                                |                                |
| Commercial, financial and agricultural      | 153                            | 196                            |
| Loans to individuals                        | 138                            | 122                            |
| Real estate-construction                    | -0-                            | -0-                            |
| Real estate-commercial                      | 136                            | 75                             |
| Real estate-residential                     | 6                              | 40                             |
| Lease financing receivables                 | -0-                            | -0-                            |
| Total recoveries                            | 433                            | 433                            |
| Net credit losses                           | 3,962                          | 2,248                          |
| Provision charged to expense                | 3,179                          | 2,979                          |
| Balance, end of period                      | \$ 41,613                      | \$ 43,379                      |

**Non-Interest Income**

The following table presents the components of non-interest income for the three months ended March 31:

|                      | 2008<br>(dollars in thousands) | 2007<br>(dollars in thousands) |
|----------------------|--------------------------------|--------------------------------|
| Non-Interest Income  |                                |                                |
| Net securities gains | \$ 501                         | \$ 605                         |
| Trust income         | 1,532                          | 1,418                          |

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|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Service charges on deposit accounts   | 4,425            | 4,165            |
| Insurance commissions                 | 1,277            | 730              |
| Income from bank owned life insurance | 1,487            | 1,490            |
| Card related interchange income       | 1,753            | 1,485            |
| Other income                          | 2,481            | 1,533            |
| <b>Total non-interest income</b>      | <b>\$ 13,456</b> | <b>\$ 11,426</b> |

Total non-interest income for the first quarter of 2008 increased \$2.0 million, or 17.8%, from the first quarter of 2007, primarily due to increases in service charges on deposit accounts, higher insurance commissions, increases in card related interchange income, and increases in other income.

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**RESULTS OF OPERATIONS (continued)****Non-Interest Income (continued)**

Net security gains in 2008 were primarily due to proceeds from the mandatory redemption of Class B Common Stock in VISA Inc. The 2007 net security gains were primarily due to trust preferred investment securities being called at a premium.

Service charges on deposit accounts increased \$260 thousand, or 6.2%, for the first quarter of 2008 compared to the corresponding period of 2007. The increase was primarily due to the opening of de novo offices and additional revenue generated from customer overdrafts.

Insurance commissions increased \$547 thousand, or 74.9%, during the first quarter of 2008 compared to the corresponding period in 2007. Higher sales, additional producers and an enhanced calling program resulted in increased insurance commissions.

Card related interchange income includes income on debit, credit and ATM cards that are issued to consumers and/or businesses. Card related interchange income increased \$268 thousand, or 18.0%, during the first quarter of 2008 compared to the same period in 2007 primarily due to additional volume from existing cards as well as volume from new card issuance.

Other income increased \$948 thousand, or 61.8% during the first quarter of 2008 compared to the same periods in 2007. Other income increased primarily due to increased letter of credit fees and swap fees.

**Non-Interest Expense**

The following table presents the components of non-interest expense for the three months ended March 31:

|                                 | 2008                   | 2007      |
|---------------------------------|------------------------|-----------|
|                                 | (dollars in thousands) |           |
| Non-Interest Expense            |                        |           |
| Salaries and employee benefits  | \$ 20,330              | \$ 20,284 |
| Net occupancy expense           | 3,907                  | 3,353     |
| Furniture and equipment expense | 3,078                  | 2,717     |
| Advertising expense             | 628                    | 1,095     |
| Data processing expense         | 1,051                  | 954       |
| Pennsylvania shares tax expense | 1,271                  | 1,469     |
| Intangible amortization         | 831                    | 870       |
| Other expenses                  | 7,760                  | 7,027     |
| Total non-interest expense      | \$ 38,856              | \$ 37,769 |

Total non-interest expense was \$38.9 million for the first quarter of 2008, reflecting an increase of \$1.1 million, or 2.9%, over the corresponding period in 2007. These increases were primarily due to higher net occupancy expense, furniture and equipment expense and other expenses partially offset by a decrease in advertising expense.

During the first quarter of 2008, salaries and employee benefits increased 4.1% compared to the corresponding period of 2007 after adjusting for the \$746 thousand executive separation payment in the first quarter of 2007, and includes annual merit increases. Full time equivalent employees were 1,586 at the end of the first quarter of 2008 compared to 1,573 at the end of the first quarter of 2007.



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### **RESULTS OF OPERATIONS (continued)**

#### **Non-Interest Expense (continued)**

Net occupancy expense increased \$554 thousand, or 16.5%, for the first quarter of 2008 compared to the first quarter of 2007 primarily due to branch expansion and higher building repairs and maintenance costs.

Furniture and equipment expense increased \$361 thousand, or 13.3%, in the first quarter of 2008 mainly due to technology related expenses.

Advertising expense decreased \$467 thousand, or 42.6%, for the quarter ended March 31, 2008, compared to the prior year period primarily due to increased branding efforts in the first quarter of 2007.

Other expenses increased \$733 thousand, or 10.4%, for the first quarter 2008 compared to the same period in 2007 primarily due to increased contributions, professional fees, collection fees, and operational losses.

#### **Income Tax**

Income tax expense was \$1.4 million for the first quarter of 2008, representing an increase of \$350 thousand from the first quarter of 2007. First Commonwealth's effective tax rate was 11.1% for the first quarter of 2008 compared to 8.7% for the corresponding period in 2007. Nontaxable income and tax credits had a smaller impact on the effective tax rate in the first quarter of 2008 due to a \$576 thousand increase in pretax income compared to the same period last year.

### **LIQUIDITY**

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets. We also have access to external sources of liquidity, including overnight Federal funds, repurchase agreements and overnight or term borrowings from the Federal Home Loan Bank. We can also raise cash through the sale of earning assets, such as loans and marketable securities, or the sale of debt or equity securities in the capital markets.

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 an Asset and Liability Management 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. 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.

First Commonwealth's long-term liquidity source is a large core deposit base and a strong capital position. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is influenced 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. During the first quarter of 2008, total deposits decreased \$26.6 million while

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**LIQUIDITY (continued)**

loans increased \$195.4 million, which was the primary cause of short-term borrowings increasing \$288.7 million. The following table shows a breakdown of the components of First Commonwealth's interest-bearing deposits:

|                                  | March 31,<br>2008      | December 31,<br>2007 |
|----------------------------------|------------------------|----------------------|
|                                  | (dollars in thousands) |                      |
| Interest-bearing demand deposits | \$ 93,040              | \$ 96,994            |
| Savings deposits                 | 1,593,328              | 1,547,117            |
| Time deposits                    | 2,091,969              | 2,179,905            |
| Total interest-bearing deposits  | \$ 3,778,337           | \$ 3,824,016         |

At March 31, 2008 noninterest-bearing deposits increased by \$19.1 million and interest-bearing deposits decreased \$45.7 million compared to December 31, 2007. The \$46.2 million increase in savings deposits for the first three months of 2008 was substantially offset by the \$4.0 million decrease in interest-bearing demand deposits and the \$87.9 million decrease in time deposits.

The following table shows a breakdown of loans by classification as of the periods presented:

|                                               | March 31,<br>2008      | December 31,<br>2007 | September 30,<br>2007 | June 30,<br>2007 | March 31,<br>2007 |
|-----------------------------------------------|------------------------|----------------------|-----------------------|------------------|-------------------|
|                                               | (dollars in thousands) |                      |                       |                  |                   |
| Commercial, financial, agricultural and other | \$ 1,052,971           | \$ 926,904           | \$ 901,679            | \$ 866,590       | \$ 854,843        |
| Real estate-construction                      | 241,114                | 207,708              | 143,680               | 123,844          | 101,719           |
| Real estate-residential                       | 1,230,928              | 1,237,986            | 1,268,313             | 1,288,089        | 1,312,389         |
| Real estate-commercial                        | 909,613                | 861,077              | 865,389               | 899,669          | 914,389           |
| Loans to individuals                          | 458,576                | 464,106              | 480,956               | 496,228          | 519,711           |
| Leases, net of unearned income                | -0-                    | 62                   | 136                   | 305              | 494               |
| Gross loans and leases                        | 3,893,202              | 3,697,843            | 3,660,153             | 3,674,725        | 3,703,545         |
| Unearned income                               | (19)                   | (24)                 | (30)                  | (37)             | (47)              |
| Total loans and leases net of unearned income | \$ 3,893,183           | \$ 3,697,819         | \$ 3,660,123          | \$ 3,674,688     | \$ 3,703,498      |

**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 their certificates early when rates rise.

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**MARKET RISK (continued)**

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 widening the interest spread and increasing earning assets. 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 business. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. Our current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. Our net interest income simulations assume a level balance sheet whereby new volumes equal run-offs. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios. Reviewing these various measures provides us with a reasonably comprehensive view of our interest rate profile.

The following gap analysis compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. The ratio of rate sensitive assets to rate sensitive liabilities repricing within a one year period was 0.63 and 0.64 at March 31, 2008 and December 31, 2007, respectively. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

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**MARKET RISK (continued)**

Following is the gap analysis as of March 31, 2008 and December 31, 2007:

|                                            | March 31, 2008<br>(dollars in thousands) |                |                 |                          | Over 1 Year<br>Thru 5<br>Years | Over<br>5 Years |
|--------------------------------------------|------------------------------------------|----------------|-----------------|--------------------------|--------------------------------|-----------------|
|                                            | 0-90<br>Days                             | 91-180<br>Days | 181-365<br>Days | Cumulative<br>0-365 Days |                                |                 |
| Loans                                      | \$ 1,476,123                             | \$ 206,110     | \$ 402,136      | \$ 2,084,369             | \$ 1,556,852                   | \$ 251,962      |
| Investments                                | 225,281                                  | 136,992        | 156,635         | 518,908                  | 842,636                        | 329,537         |
| Other interest-earning assets              | 219                                      | -0-            | -0-             | 219                      | -0-                            | -0-             |
| Total interest-sensitive assets (ISA)      | 1,701,623                                | 343,102        | 558,771         | 2,603,496                | 2,399,488                      | 581,499         |
| Certificates of deposit                    | 686,572                                  | 513,220        | 429,101         | 1,628,893                | 445,629                        | 17,349          |
| Other deposits                             | 1,686,466                                | -0-            | -0-             | 1,686,466                | -0-                            | -0-             |
| Borrowings                                 | 714,362                                  | 24,178         | 67,695          | 806,235                  | 318,405                        | 45,083          |
| Total interest-sensitive liabilities (ISL) | 3,087,400                                | 537,398        | 496,796         | 4,121,594                | 764,034                        | 62,432          |
| Gap                                        | \$ (1,385,777)                           | \$ (194,296)   | \$ 61,975       | \$ (1,518,098)           | \$ 1,635,454                   | \$ 519,067      |
| ISA/ISL                                    | 0.55                                     | 0.64           | 1.12            | 0.63                     | 3.14                           | 9.31            |
| Gap/Total assets                           | 22.64%                                   | 3.18%          | 1.01%           | 24.81%                   | 26.73%                         | 8.48%           |

|                                            | December 31, 2007<br>(dollars in thousands) |                |                 |                          | Over 1 Year<br>Thru 5<br>Years | Over<br>5 Years |
|--------------------------------------------|---------------------------------------------|----------------|-----------------|--------------------------|--------------------------------|-----------------|
|                                            | 0-90<br>Days                                | 91-180<br>Days | 181-365<br>Days | Cumulative<br>0-365 Days |                                |                 |
| Loans                                      | \$ 1,389,601                                | \$ 181,132     | \$ 371,834      | \$ 1,942,567             | \$ 1,540,670                   | \$ 214,582      |
| Investments                                | 210,972                                     | 129,592        | 168,023         | 508,587                  | 798,857                        | 338,382         |
| Other interest-earning assets              | 1,719                                       | -0-            | -0-             | 1,719                    | -0-                            | -0-             |
| Total interest-sensitive assets (ISA)      | 1,602,292                                   | 310,724        | 539,857         | 2,452,873                | 2,339,527                      | 552,964         |
| Certificates of deposit                    | 660,483                                     | 538,584        | 484,661         | 1,683,728                | 477,219                        | 18,854          |
| Other deposits                             | 1,644,215                                   | -0-            | -0-             | 1,644,215                | -0-                            | -0-             |
| Borrowings                                 | 437,500                                     | 26,665         | 40,169          | 504,334                  | 349,759                        | 41,083          |
| Total interest-sensitive liabilities (ISL) | 2,742,198                                   | 565,249        | 524,830         | 3,832,277                | 826,978                        | 59,937          |
| Gap                                        | \$ (1,139,906)                              | \$ (254,525)   | \$ 15,027       | \$ (1,379,404)           | \$ 1,512,549                   | \$ 493,027      |

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|                  |        |       |       |        |        |       |
|------------------|--------|-------|-------|--------|--------|-------|
| ISA/ISL          | 0.58   | 0.55  | 1.03  | 0.64   | 2.83   | 9.23  |
| Gap/Total assets | 19.37% | 4.33% | 0.26% | 23.44% | 25.71% | 8.38% |

The following table presents an analysis of the potential sensitivity of our annual net interest income to immediate and parallel changes (shocks) in market rates versus if rates remained unchanged, based on March 31, 2008 information (dollars in thousands):

|                                                |          |          |          |            |
|------------------------------------------------|----------|----------|----------|------------|
|                                                | + 200    | + 100    | - 100    | - 200      |
| <b>Net interest income change (12 months):</b> | (\$ 971) | (\$ 591) | (\$ 963) | (\$ 3,655) |

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#### AND RESULTS OF OPERATIONS

### **MARKET RISK (continued)**

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

### **FAIR VALUES OF ASSETS AND LIABILITIES**

In accordance with Statement of Financial Accounting Standards No. 157 ( SFAS 157 ) Fair Value Measurements, fair values for investment securities are based on quoted market prices, if available. If quoted market prices are not available, the valuation for investment securities involves several third party sources. The primary provider of this information utilizes evaluated pricing models that vary based on asset class and include available trade, bid and other market information.

Fair values used for investment securities are validated through periodic reviews of changes in total portfolio value, as well as key portfolio groups, compared to movements in interest rates, credit risks as well as underlying financial markets.

### **CREDIT RISK**

First Commonwealth maintains an allowance for credit losses at a level deemed sufficient to absorb losses inherent in the loan and lease portfolios at 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 problem loans, delinquency and loss experience trends, and other relevant factors. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses.

Nonperforming loans include nonaccrual loans and 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.

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. Past due loans are those loans which are contractually past due 90 days or more as to interest or principal payments but are well secured and in the process of collection.

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

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**CREDIT RISK (continued)**

The following table identifies amounts of loan losses and nonperforming loans:

|                                                                                | 2008                   | March 31,<br>2007 |
|--------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                | (dollars in thousands) |                   |
| <b><u>Nonperforming Loans:</u></b>                                             |                        |                   |
| Loans on nonaccrual basis                                                      | \$ 48,799              | \$ 12,746         |
| Troubled debt restructured loans                                               | 143                    | 157               |
| Total nonperforming loans                                                      | \$ 48,942              | \$ 12,903         |
| Loans past due in excess of 90 days and still accruing                         | \$ 20,066              | \$ 13,644         |
| Other real estate owned                                                        | \$ 3,280               | \$ 1,663          |
| Loans outstanding at end of period                                             | \$ 3,893,183           | \$ 3,703,498      |
| Average loans outstanding                                                      | \$ 3,835,587           | \$ 3,737,477      |
| Nonperforming loans as a percentage of total loans                             | 1.26%                  | 0.35%             |
| Provision for credit losses                                                    | \$ 3,179               | \$ 2,979          |
| Allowance for credit losses                                                    | \$ 41,613              | \$ 43,379         |
| Net credit losses                                                              | \$ 3,962               | \$ 2,248          |
| Net credit losses as a percentage of average loans outstanding (annualized)    | 0.42%                  | 0.24%             |
| Provision for credit losses as a percentage of net credit losses               | 80.24%                 | 132.52%           |
| Allowance for credit losses as a percentage of average loans outstanding       | 1.08%                  | 1.16%             |
| Allowance for credit losses as a percentage of end-of-period loans outstanding | 1.07%                  | 1.17%             |
| Allowance for credit losses as a percentage of nonperforming loans             | 85.03%                 | 336.19%           |

The following table identifies impaired loans, and information regarding the relationship of impaired loans to the allowance for credit losses at March 31, 2008 and March 31, 2007:

|                                                                      | 2008                   | 2007      |
|----------------------------------------------------------------------|------------------------|-----------|
|                                                                      | (dollars in thousands) |           |
| Recorded investment in impaired loans at end of period               | \$ 48,942              | \$ 12,903 |
| Average balance of impaired loans for the period                     | \$ 50,997              | \$ 12,523 |
| Allowance for credit losses related to impaired loans                | \$ 11,648              | \$ 2,261  |
| Impaired loans with an allocation of the allowance for credit losses | \$ 38,733              | \$ 8,216  |
| Impaired loans with no allocation of the allowance for credit losses | \$ 10,209              | \$ 4,687  |
| Income recorded on impaired loans on a cash basis                    | \$ 112                 | \$ 148    |

Nonaccrual loans increased \$36.1 million to \$48.8 million at March 31, 2008 compared to \$12.7 million at March 31, 2007, mainly due to a \$30.0 million commercial credit relationship placed on nonaccrual during the second quarter of 2007. This credit relationship has been monitored since the second quarter of 2006 when management disclosed that this credit had experienced deterioration. This credit is

collateralized by real estate and equipment and a reserve has been allocated, primarily during 2006, to cover the expected losses.

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**CREDIT RISK (continued)**

Loans past due in excess of 90 days and still accruing increased \$6.4 million to \$20.1 million compared to March 31, 2007. The majority of this increase is related to one commercial loan that management believes is adequately collateralized by real estate.

Other real estate owned increased \$1.6 million to \$3.3 million compared to March 31, 2007. The increase is primarily due to one large credit placed in other real estate owned during the first quarter of 2008.

In 2006, First Commonwealth purchased \$7.0 million in loans from EFI, a division of Sterling Financial Corporation of Lancaster, Pennsylvania (Sterling). Sterling subsequently disclosed an investigation, which is still ongoing, into financial irregularities related to certain financing contracts at EFI. Loans in this portfolio are collateralized by equipment, and reserves were allocated in the second quarter of 2007 to cover expected losses. At March 31, 2008, the remaining balance in the portfolio was \$4.1 million, of which \$3.0 million was classified as nonaccrual. No EFI loans were reclassified by First Commonwealth as nonaccrual during the first quarter of 2008. PNC Financial Services Group, Inc. finalized the acquisition of Sterling on April 4, 2008.

**CAPITAL RESOURCES**

At March 31, 2008, shareholders' equity was \$574.5 million, an increase of \$5.7 million from December 31, 2007. The increase was primarily due to unrealized holding gains on securities and net income, offset by dividends paid. A strong capital base provides First Commonwealth with a foundation to expand lending, to protect depositors, and to provide for growth while protecting against future uncertainties. The evaluation of capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings history and prospects. In consideration of these factors, management's primary emphasis with respect to First Commonwealth's capital position is to maintain an adequate and stable equity to assets ratio.

The Federal Reserve Board has issued risk-based capital adequacy guidelines, which are designed principally as a measure of credit risk. These guidelines require: (1) at least 50% of a banking organization's total capital be common and other core equity capital (Tier I Capital); (2) assets and off-balance-sheet items be weighted according to risk; (3) the total capital to risk-weighted assets ratio be at least 8%; and (4) a minimum leverage ratio of Tier I capital to average total assets of 3%.

The table below presents First Commonwealth's capital position at March 31, 2008:

|                                        | <b>Capital<br/>Amount<br/>(dollars in<br/>thousands)</b> | <b>Ratio</b> |
|----------------------------------------|----------------------------------------------------------|--------------|
| Tier I Capital to Risk-Weighted Assets | \$ 497,138                                               | 10.5%        |
| Risk-Based Requirement                 | \$ 189,047                                               | 4.0%         |
| Total Capital to Risk-Weighted Assets  | \$ 538,751                                               | 11.4%        |
| Risk-Based Requirement                 | \$ 378,095                                               | 8.0%         |
| Leverage Capital Ratio                 | \$ 497,138                                               | 8.5%         |
| Minimum Leverage Requirement           | \$ 174,719                                               | 3.0%         |

For an institution to qualify as well capitalized under regulatory guidelines, Tier I, Total and Leverage Capital ratios must be at least 6.0%, 10.0%, and 5.0%, respectively. At March 31, 2008, First Commonwealth's banking subsidiary exceeded those requirements.



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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

**ITEM 1.** LEGAL PROCEEDINGS

There are no material legal proceedings to which First Commonwealth is a party, or of which any of their property is the subject, except proceedings which arise in the normal course of business and, in the opinion of management, will not have a material adverse effect on the consolidated operations or financial position of First Commonwealth.

**ITEM 1A.** RISK FACTORS

There were no material changes to the risk factors described in Item 1A in First Commonwealth's Annual Report on Form 10-K for the period ended December 31, 2007.

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

None

**ITEM 3.** DEFAULTS UPON SENIOR SECURITIES

None

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

**ITEM 4.** SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

**ITEM 5.** OTHER INFORMATION

None

**ITEM 6.** EXHIBITS

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                 | <b>Incorporated by Reference to</b> |
|---------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------|
| 10.1                      | 2008 Annual Cash Incentive Plan                                                                    | Filed herewith                      |
| 10.2                      | 2008 2010 Long Term Incentive Plan                                                                 | Filed herewith                      |
| 31.1                      | Chief Executive Officer Certification pursuant to Section 302 of the<br>Sarbanes-Oxley Act of 2002 | Filed herewith                      |
| 31.2                      | Chief Financial Officer Certification pursuant to Section 302 of the<br>Sarbanes-Oxley Act of 2002 | Filed herewith                      |
| 32.1                      | Chief Executive Officer Certification pursuant to Section 906 of the<br>Sarbanes-Oxley Act of 2002 | Filed herewith                      |
| 32.2                      | Chief Financial Officer Certification pursuant to Section 906 of the<br>Sarbanes-Oxley Act of 2002 | Filed herewith                      |

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**SIGNATURES**

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

FIRST COMMONWEALTH FINANCIAL CORPORATION

(Registrant)

DATED: May 8, 2008

/s/ John J. Dolan  
John J. Dolan  
President and Chief Executive Officer

DATED: May 8, 2008

/s/ Edward J. Lipkus, III  
Edward J. Lipkus, III  
Executive Vice President and Chief Financial Officer