

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

May 08, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2012

Or

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

Commission File Number 001-11138

First Commonwealth Financial Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1428528
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
22 North Sixth Street, Indiana, PA	15701
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or

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for such shorter period that the registrant was required to submit and post such files). 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.

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 May 4, 2012, was 105,198,546.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited)*

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2012	December 31, 2011
	(dollars in thousands,	
	except share data)	
Assets		
Cash and due from banks	\$ 74,889	\$ 74,967
Interest-bearing bank deposits	6,663	3,511
Securities available for sale, at fair value	1,206,943	1,142,776
Other investments	37,806	39,796
Loans held for sale	8,076	13,412
Loans:		
Portfolio loans	4,128,588	4,043,643
Allowance for credit losses	(60,732)	(61,234)
Net loans	4,067,856	3,982,409
Premises and equipment, net	67,482	66,755
Other real estate owned	21,335	30,035
Goodwill	159,956	159,956
Amortizing intangibles, net	3,472	3,843
Other assets	314,166	323,662
Total assets	\$ 5,968,644	\$ 5,841,122
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 818,896	\$ 780,377
Interest-bearing	3,814,935	3,724,307
Total deposits	4,633,831	4,504,684
Short-term borrowings	309,373	312,777
Subordinated debentures	105,750	105,750
Other long-term debt	101,018	101,664
Total long-term debt	206,768	207,414
Other liabilities	51,314	57,704
Total liabilities	5,201,286	5,082,579
Shareholders' Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued at March 31, 2012 and December 31, 2011 and 105,050,018 and 104,916,994 shares outstanding at March 31,	105,563	105,563

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2012 and December 31, 2011, respectively

Additional paid-in capital	365,707	365,868
Retained earnings	301,194	294,056
Accumulated other comprehensive income, net	3,040	2,001
Treasury stock (513,437 and 646,461 shares at March 31, 2012 and December 31, 2011, respectively)	(7,046)	(7,345)
Unearned ESOP shares	(1,100)	(1,600)

Total shareholders' equity	767,358	758,543
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Total liabilities and shareholders' equity	\$ 5,968,644	\$ 5,841,122
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three-Months Ended March 31,	
	2012	2011
	(dollars in thousands,	
	except share data)	
Interest Income		
Interest and fees on loans	\$ 48,040	\$ 50,883
Interest and dividends on investments:		
Taxable interest	8,549	8,374
Interest exempt from federal income taxes	5	186
Dividends	21	17
Interest on bank deposits	1	9
Total interest income	56,616	59,469
Interest Expense		
Interest on deposits	6,247	9,536
Interest on short-term borrowings	227	185
Interest on subordinated debentures	1,433	1,383
Interest on other long-term debt	539	496
Total interest on long-term debt	1,972	1,879
Total interest expense	8,446	11,600
Net Interest Income	48,170	47,869
Provision for credit losses	3,787	13,817
Net Interest Income after Provision for Credit Losses	44,383	34,052
Noninterest Income		
Changes in fair value on impaired securities	1,498	1,869
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(1,498)	(1,869)
Net impairment losses	0	0
Net securities gains	0	577
Trust income	1,542	1,718
Service charges on deposit accounts	3,502	3,426
Insurance and retail brokerage commissions	1,424	1,562
Income from bank owned life insurance	1,445	1,357
Income from other real estate owned	964	0
Gain on sale of assets	2,115	231
Card related interchange income	3,114	2,800
Other income	3,274	2,657
Total noninterest income	17,380	14,328
Noninterest Expense		
Salaries and employee benefits	21,758	21,128

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Net occupancy expense	3,404	3,732
Furniture and equipment expense	3,184	3,180
Data processing expense	1,563	1,424
Pennsylvania shares tax expense	1,183	1,178
Intangible amortization	371	390
Collection and repossession expense	2,699	1,316
Other professional fees and services	1,199	1,125
FDIC insurance	1,237	1,835
Loss on sale or write-down of assets	3,289	301
Unfunded commitments reserve	913	(357)
Other operating expenses	5,952	6,177
 Total noninterest expense	 46,752	 41,429
 Income Before Income Taxes	 15,011	 6,951
Income tax provision	3,960	1,705
 Net Income	 \$ 11,051	 \$ 5,246
 Average Shares Outstanding	 104,810,727	 104,618,499
Average Shares Outstanding Assuming Dilution	104,816,442	104,623,518
Per Share Data:		
Basic Earnings per Share	\$ 0.11	\$ 0.05
Diluted Earnings per Share	\$ 0.11	\$ 0.05
Cash Dividends Declared per Common Share	\$ 0.03	\$ 0.03

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three-Months Ended March 31, 2012 2011 (dollars in thousands)	
Net Income	\$ 11,051	\$ 5,246
Other comprehensive income (loss), before tax expense (benefit):		
Unrealized holding gains (losses) on securities arising during the period	99	(1,616)
Non-credit related gains on securities not expected to be sold	1,498	1,869
Less: reclassification adjustment for losses on securities included in net income	0	(577)
Total other comprehensive income (loss), before tax expense (benefit)	1,597	(324)
Income tax expense (benefit) related to items of other comprehensive income (loss)	558	(113)
Comprehensive Income	\$ 12,090	\$ 5,035

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
(dollars in thousands, except per share data)								
Balance at December 31, 2011	104,916,994	\$ 105,563	\$ 365,868	\$ 294,056	\$ 2,001	\$ (7,345)	\$ (1,600)	\$ 758,543
Net income				11,051				11,051
Other comprehensive income					1,039			1,039
Cash dividends declared (\$0.03 per share)				(3,147)				(3,147)
Net decrease in unearned ESOP shares							500	500
ESOP market value adjustment (\$242, net of \$85 tax benefit)			(157)					(157)
Discount on dividend reinvestment plan purchases			(16)					(16)
Tax benefit of stock options exercised			1					1
Treasury stock reissued	33,024		0	(163)		373		210
Restricted stock	100,000		11	(603)		(74)		(666)
Balance at March 31, 2012	105,050,018	\$ 105,563	\$ 365,707	\$ 301,194	\$ 3,040	\$ (7,046)	\$ (1,100)	\$ 767,358

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
(dollars in thousands, except per share data)								
Balance at December 31, 2010	104,846,194	\$ 105,515	\$ 366,488	\$ 291,492	\$ (2,458)	\$ (7,660)	\$ (3,600)	\$ 749,777
Net income				5,246				5,246
Other comprehensive loss					(211)			(211)
Cash dividends declared (\$0.03 per share)				(3,138)				(3,138)
Net decrease in unearned ESOP shares							500	500
ESOP market value adjustment (\$226, net of \$79 tax benefit)			(147)					(147)
Discount on dividend reinvestment plan purchases			(16)					(16)
Tax benefit of stock options exercised			6					6
Treasury stock reissued	13,760			(82)		156		74
Restricted stock			7			34		41
Balance at March 31, 2011	104,859,954	\$ 105,515	\$ 366,338	\$ 293,518	\$ (2,669)	\$ (7,470)	\$ (3,100)	\$ 752,132

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three-Months Ended March 31,	
	2012	2011
	(dollars in thousands)	
Operating Activities		
Net income	\$ 11,051	\$ 5,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,787	13,817
Deferred tax expense	671	14
Depreciation and amortization	1,520	2,407
Net losses (gains) on securities and other assets	567	(535)
Net amortization of premiums and discounts on securities	287	215
Net accretion of premiums and discounts on long-term debt	(28)	(42)
Income from increase in cash surrender value of bank owned life insurance	(1,445)	(1,357)
Decrease in interest receivable	352	78
Decrease in interest payable	(1,177)	(1,098)
Increase in income taxes payable	9,569	1,587
Other-net	(5,439)	(970)
Net cash provided by operating activities	19,715	19,362
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	0	54,965
Proceeds from maturities and redemptions	149,201	69,702
Purchases	(212,061)	(165,377)
Proceeds from the redemption of FHLB stock	1,990	2,443
Proceeds from bank owned life insurance	0	88
Proceeds from sale of loans	6,809	4,402
Proceeds from sales of other assets	8,135	2,076
Net (increase) decrease in loans	(90,600)	124,940
Purchases of premises and equipment	(2,804)	(1,470)
Net cash (used in) provided by investing activities	(139,330)	91,769
Financing Activities		
Net decrease in federal funds purchased	(43,800)	(12,800)
Net increase (decrease) in other short-term borrowings	40,396	(19,719)
Net increase in deposits	129,163	12,143
Repayments of other long-term debt	(118)	(24,213)
Discount on dividend reinvestment plan purchases	(16)	(16)
Dividends paid	(3,147)	(3,138)
Proceeds from reissuance of treasury stock	210	73
Stock option tax benefit	1	0
Net cash provided by (used in) financing activities	122,689	(47,670)

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Net increase in cash and cash equivalents	3,074	63,461
Cash and cash equivalents at January 1	78,478	69,858
Cash and cash equivalents at March 31	\$ 81,552	\$ 133,319

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited)*

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

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

The results of operations for the three-months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the full year of 2012. These interim financial statements should be read in conjunction with First Commonwealth's 2011 Annual Report on Form 10-K which is available on First Commonwealth's website at <http://www.fcbanking.com>.

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

Note 2 Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income (OCI) in the Condensed Consolidated Statements of Comprehensive Income for the three-months ended March 31:

	Pretax Amount	2012 Tax (Expense) Benefit	Net of Tax Amount (dollars in thousands)	Pretax Amount	2011 Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains (losses) on securities:						
Unrealized holding gains (losses) on securities arising during the period	\$ 99	\$ (34)	\$ 65	\$ (1,616)	\$ 565	\$ (1,051)
Non-credit related gains on securities not expected to be sold	1,498	(524)	974	1,869	(654)	1,215
Less: reclassification adjustment for losses on securities included in net income	0	0	0	(577)	202	(375)
Net unrealized gains (losses) on securities	1,597	(558)	1,039	(324)	113	(211)
Total other comprehensive income (loss)	\$ 1,597	\$ (558)	\$ 1,039	\$ (324)	\$ 113	\$ (211)

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 3 Supplemental Cash Flow Disclosures

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

	2012 (dollars in thousands)	2011 (dollars in thousands)
Cash paid during the period for:		
Interest	\$ 9,668	\$ 12,765
Non-cash investing and financing activities:		
ESOP loan reductions	\$ 500	\$ 500
Loans transferred to other real estate owned and repossessed assets	2,561	6,197
Other real estate owned sold and settled out of period	(48)	0
Gross increase (decrease) in market value adjustment to securities available for sale	1,597	(334)

Note 4 Earnings per Share

The following table summarizes the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computations for the three-months ended March 31:

	2012	2011
Weighted average common shares issued	105,563,455	105,515,079
Average treasury shares	(542,326)	(663,993)
Averaged unearned ESOP shares	(84,989)	(214,917)
Average unearned nonvested shares	(125,413)	(17,670)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	104,810,727	104,618,499
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	5,715	0
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	0	5,019
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	104,816,442	104,623,518

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

	2012 Shares	2012 Price Range From To	2011 Shares	2011 Price Range From To
Stock Options	380,677	\$ 6.36 \$ 14.55	484,439	\$ 6.90 \$ 14.55

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Restricted Stock	68,995	5.96	6.82	12,550	5.70	5.70
<u>Note 5 Variable Interest Entities</u>						

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10, a Variable Interest Entity (VIE) is a corporation, partnership, trust or any other legal structure used for

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 5 Variable Interest Entities (Continued)

business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the entity's residual returns, or both.

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

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

	March 31, 2012	December 31, 2011
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	\$ 556	\$ 667

Note 6 Commitments and Contingent Liabilities**Commitments and letters of credit**

Standby letters of credit and commercial 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, 2012	December 31, 2011
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,571,673	\$ 1,495,009
Financial standby letters of credit	54,164	53,689

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Performance standby letters of credit	64,045	76,371
Commercial letters of credit	769	1,297

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 6 Commitments and Contingent Liabilities (Continued)

Commitments and letters of credit (Continued)

The current notional amounts outstanding as of March 31, 2012 include financial standby letters of credit of \$0.1 million, and performance standby letters of credit of \$3.6 million, issued during the first three months of 2012. A liability of \$0.2 million and \$0.1 million has been recorded as of March 31, 2012 and December 31, 2011, respectively, which represents the estimated fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued.

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. Management's evaluation of the credit risk in these commitments resulted in the recording of a liability of \$2.4 million as of March 31, 2012 and \$1.5 million as of December 31, 2011. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

Legal proceedings

McGrogan v. First Commonwealth Bank is a class action that was filed on January 12, 2009, in the Court of Common Pleas of Allegheny County, Pennsylvania. The action alleges that First Commonwealth Bank (the "Bank") promised class members a minimum interest rate of 8% on its IRA Market Rate Savings Account for as long as the class members kept their money on deposit in the IRA account. The class asserts that the Bank committed fraud, breached its modified contract with the class members, and violated the Pennsylvania Unfair Trade Practice and Consumer Protection Law when it resigned as custodian of the IRA Market Rate Savings Accounts in 2008 and offered the class members a roll-over IRA account with a 3.5% interest rate. At that time, there were 237 account holders with an average age of 64, and the aggregate balances in the IRA Market Rate Savings accounts totaled approximately \$11.5 million. Plaintiffs seek monetary damages for the alleged breach of contract, punitive damages for the alleged fraud and Unfair Trade Practice and Consumer Protection Law violations and attorney's fees. On July 27, 2011, the court granted class certification as to the breach of modified contract claim and denied class certification as to the fraud and Pennsylvania Unfair Trade Practice and Consumer Protection Law claims. The breach of contract claim is predicated upon a letter sent to customers in 1998 which reversed an earlier decision by the Bank to reduce the rate paid on the accounts. The letter stated, in relevant part, "This letter will serve as notification that a decision has been made to re-establish the rate on your account to eight percent (8%). This rate will be retroactive to your most recent maturity date and will continue going forward on deposits presently in the account and on annual additions. In granting class certification, the court found that the letter could constitute a modification of the original IRA contract that would obligate the Bank to pay a minimum rate of 8% until the accounts are closed. Plaintiffs and the Bank have filed motions for summary judgment. In support of its motion, the Bank has asserted that the 1998 letter did not alter the Bank's right to resign as custodian and close the accounts, which the Bank exercised in 2008. Oral argument on the motions for summary judgment was held on April 4, 2012, and a decision is currently pending. The amount of the Bank's liability, if any, will depend upon information which is not presently known to the Bank, including the court's interpretation of the 1998 letter, each class member's life expectancy and pace of distributions from the IRA account, and the extent to which damages were or could have been mitigated through alternative investments. Accordingly, the Company is unable to estimate the amount or range of a reasonably possible loss.

Other matters

There are no other material legal proceedings to which First Commonwealth or its subsidiaries are a party, or of which their property is the subject, except proceedings which arise in the normal course of business and, in the

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 6 Commitments and Contingent Liabilities (Continued)**Other Matters (Continued)**

opinion of management, will not have a material adverse effect on the consolidated operations or financial position of First Commonwealth or its subsidiaries.

Note 7 Investment Securities

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

	Amortized Cost	March 31, 2012 Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (dollars in thousands)	Amortized Cost	December 31, 2011 Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities Residential	\$ 31,994	\$ 4,026	\$ (12)	\$ 36,008	\$ 32,139	\$ 4,061	\$ (6)	\$ 36,194
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage-Backed Securities Residential	834,125	29,678	(319)	863,484	771,196	29,835	0	801,031
Mortgage-Backed Securities Commercial	185	1	0	186	193	1	(1)	193
Other Government Sponsored Enterprises	267,904	732	(110)	268,526	267,807	973	(132)	268,648
Obligations of States and Political Subdivisions	443	11	0	454	444	15	0	459
Corporate Securities	11,803	174	(60)	11,917	11,811	162	(562)	11,411
Pooled Trust Preferred Collateralized Debt Obligations	54,471	112	(30,075)	24,508	54,762	3	(31,785)	22,980
Total Debt Securities	1,200,925	34,734	(30,576)	1,205,083	1,138,352	35,050	(32,486)	1,140,916
Equities	1,860	0	0	1,860	1,860	0	0	1,860
Total Securities Available for Sale	\$ 1,202,785	\$ 34,734	\$ (30,576)	\$ 1,206,943	\$ 1,140,212	\$ 35,050	\$ (32,486)	\$ 1,142,776

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 7 Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities available for sale at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost (dollars in thousands)	Estimated Fair Value (dollars in thousands)
Due within 1 year	\$ 7,364	\$ 7,384
Due after 1 but within 5 years	260,983	261,596
Due after 5 but within 10 years	0	0
Due after 10 years	66,274	36,425
	334,621	305,405
Mortgage-Backed Securities (a)	866,304	899,678
Total Debt Securities	\$ 1,200,925	\$ 1,205,083

- (a) Mortgage Backed Securities include an amortized cost of \$32.0 million and a fair value of \$36.0 million for Obligations of U.S. Government agencies issued by Ginnie Mae and Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac which had an amortized cost of \$834.3 million and a fair value of \$863.7 million. Proceeds from sale, gross gains (losses) realized on sales, maturities and other-than-temporary impairment charges related to securities available for sale were as follows for the three-months ended March 31:

	2012 (dollars in thousands)	2011 (dollars in thousands)
Proceeds from sale	\$ 0	\$ 54,965
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	\$ 0	\$ 832
Gross losses	0	(258)
	0	574
Maturities and impairment		
Gross gains	0	3

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Gross losses	0	0
Other-than-temporary impairment	0	0
	0	3
Net gains and impairment	\$ 0	\$ 577

Securities available for sale with a fair value of \$647.6 million and \$668.8 million were pledged as of March 31, 2012 and December 31, 2011, respectively, to secure public deposits and for other purposes required or permitted by law.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 7 Investment Securities (Continued)

There were no held-to-maturity debt securities as of March 31, 2012 and December 31, 2011. For the three months ended March 31, 2012 and 2011, there were no gains or losses for debt securities held-to-maturity.

Note 8 Other Investments

As a member of the Federal Home Loan Bank (FHLB), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of March 31, 2012 and December 31, 2011, our FHLB stock totaled \$37.8 million and \$39.8 million, respectively and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

During the three-months ended March 31, 2012 and 2011, the FHLB repurchased excess stock from its members by repurchasing the lesser of 5% of the members' total capital stock outstanding or its total excess capital stock. As a result, during the three-months ended March 31, 2012 and 2011, stock repurchases occurred in the amounts of \$2.0 million and \$2.4 million, respectively. In addition, the FHLB paid a cash dividend of \$0.10 per share, or \$10 thousand, during the first quarter 2012. This was the first dividend paid by FHLB since December 2008. Decisions regarding any future repurchases of excess capital stock and dividend payments will be made by the FHLB on a quarterly basis. Management reviewed the FHLB's Form 10-K for the period ended December 31, 2011 filed with the SEC on March 5, 2012.

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

its operating performance;

the severity and duration of declines in the fair value of its net assets related to its capital stock amount;

its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and

its liquidity and funding position.

After evaluating all of these considerations, First Commonwealth concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the three-months ended March 31, 2012. Our evaluation of

the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 9 Impairment of Investment Securities

As required by FASB ASC Topic 320, Investments – Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

impairment on debt securities not expected to be sold is recognized in OCI. In the first quarter of 2012 and 2011, no other-than-temporary impairment charges were recognized and \$1.5 and \$1.9 million, respectively, in non-credit related gains on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities.

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

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

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and whether we are more likely than not to sell the security. We evaluate whether we are more likely than not to sell debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy, tax position and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, weakness in the U.S. economy, changes in real estate values and additional interest deferrals in our pooled trust preferred collateralized debt obligations. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of FASB ASC Topic 325, *Investments - Other*, and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows indicate that it is probable that an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FASB ASC Topic 320. There is a risk that First Commonwealth will record other-than-temporary impairment charges in the future. See Note 12, *Fair Values of Assets and Liabilities*, for additional information.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

The following table presents the gross unrealized losses and estimated fair values at March 31, 2012 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated	Gross	Estimated	Gross	Estimated	Gross
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	(dollars in thousands)					
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities Residential	\$ 2,186	\$ (12)	\$ 16	\$ 0(a)	\$ 2,202	\$ (12)
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage-Backed Securities Residential	\$ 75,998	\$ (319)	\$ 0	\$ 0	\$ 75,998	\$ (319)
Other Government-Sponsored Enterprises	83,490	(110)	0	0	83,490	(110)
Corporate Securities	5,032	(60)	0	0	5,032	(60)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	24,106	(30,075)	24,106	(30,075)
Total Securities Available for Sale	\$ 166,706	\$ (501)	\$ 24,122	\$ (30,075)	\$ 190,828	\$ (30,576)

(a) Gross unrealized losses related to these types of securities are less than \$1 thousand.

At March 31, 2012, pooled trust preferred collateralized debt obligations accounted for 98% of total unrealized losses, fixed income securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises accounted for 2% and corporate fixed income comprised less than one percent of unrealized losses. There were no equity securities in an unrealized loss position at March 31, 2012.

As of March 31, 2012, our corporate securities had an amortized cost and an estimated fair value of \$11.8 million and \$11.9 million, respectively, and were comprised of single issue trust preferred securities issued primarily by money center and large regional banks. As of December 31, 2011, the same portion of the portfolio had an amortized cost of \$11.8 million and an estimated fair value of \$11.4 million. Included in the corporate securities portfolio are investments which had a gross unrealized loss of \$60 thousand as of March 31, 2012 and \$0.6 million as of December 31, 2011. After a review of each of the issuer's asset quality, earnings trend and capital position, it was determined that none of the issues in an unrealized loss position were other-than-temporarily impaired. Additionally, all interest payments on these securities are being made as contractually required.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

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

		Less Than 12 Months	Gross	12 Months or More	Gross	Total	
		Estimated	Unrealized	Estimated	Unrealized	Estimated	Gross
		Fair	Losses	Fair	Losses	Fair	Unrealized
		Value		Value		Value	Losses
					(dollars in thousands)		
Obligations of U.S. Government Agencies:							
Mortgage-Backed Securities	Residential	\$ 1,086	\$ (6)	\$ 16	\$ 0(a)	\$ 1,102	\$ (6)
Obligations of U.S. Government- Sponsored Enterprises:							
Mortgage-Backed Securities	Residential	25	0	0(a)	0	25	0
Mortgage-Backed Securities	Commercial	151	(1)	0	0	151	(1)
Other Government-Sponsored Enterprises		55,969	(132)	0	0	55,969	(132)
Corporate Securities		4,536	(562)	0	0	4,536	(562)
Pooled Trust Preferred Collateralized Debt Obligations		0	0	22,927	(31,785)	22,927	(31,785)
Total Securities Available for Sale		\$ 61,767	\$ (701)	\$ 22,943	\$ (31,785)	\$ 84,710	\$ (32,486)

(a) Gross unrealized losses related to these types of securities are less than \$1 thousand.

As of March 31, 2012, the book value of our pooled trust preferred collateralized debt obligations totaled \$54.5 million with an estimated fair value of \$24.5 million, which includes securities comprised of 348 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainders are mezzanine tranches, three of which have no senior class remaining in the issue. Two of the pooled issues, representing \$5.3 million of the \$54.5 million book value, remain above investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of March 31, 2012, after taking into account management's best estimates of future interest deferrals and defaults, seven of our securities had no excess subordination in the tranches we own and seven of our securities had excess subordination which ranged from 5% to 263% of the current performing collateral.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

The following table provides information related to our pooled trust preferred collateralized debt obligations as of March 31, 2012:

Deal	Class	Book Value	Fair Value	Unrealized Gain (Loss)	Moody's/ Fitch Ratings	Number of Banks	Deferrals and Defaults as a % of Current Collateral	Excess Subordination as a % of Current Performing Collateral
(dollars in thousands)								
Pre TSL I	Senior	\$ 1,581	\$ 1,519	\$ (62)	Aa3/BBB	20	39.50%	218.93%
Pre TSL IV	Mezzanine	1,830	664	(1,166)	Ca/CCC	6	27.07	96.28
Pre TSL V	Mezzanine	50	50	0	Caa3/D	3	100.00	0.00
Pre TSL VI	Mezzanine	240	352	112	Ca/D	5	12.27	205.63
Pre TSL VII	Mezzanine	4,026	3,070	(956)	Ca/C	17	52.13	0.00
Pre TSL VIII	Mezzanine	1,715	968	(747)	C/C	35	45.91	0.00
Pre TSL IX	Mezzanine	2,241	812	(1,429)	Ca/C	48	26.21	7.25
Pre TSL X	Mezzanine	1,377	909	(468)	C/C	53	44.67	0.00
Pre TSL XII	Mezzanine	5,502	2,960	(2,542)	Ca/C	76	31.86	0.00
Pre TSL XIII	Mezzanine	12,121	4,241	(7,880)	Ca/C	63	35.82	0.00
Pre TSL XIV	Mezzanine	12,819	4,302	(8,517)	Ca/C	63	38.55	24.36
MMCap I	Senior	3,766	3,470	(296)	A3/BBB	21	37.69	262.60
MMCap I	Mezzanine	842	437	(405)	Ca/C	21	37.69	5.47
MM Comm IX	Mezzanine	6,361	754	(5,607)	Ca/D	31	46.50	0.00
Total		\$ 54,471	\$ 24,508	\$ (29,963)				

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

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the three-months ended March 31, 2012 and 2011, there were no credit related other-than-temporary impairment charges recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments we determine a credit related portion and a non-credit related portion of other-than-temporary impairment. The credit related portion is recognized in earnings and represents the difference between book value and the present value of future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the fair value of the security and the amount of credit related impairment. A discounted cash flow analysis provides the best estimate of credit related other-than-temporary impairment for these securities.

Additional information related to the discounted cash flow analysis follows:

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Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at March 31, 2012. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

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

Estimate of Future Cash Flows Cash flows are constructed in an INTEX cash flow model which includes each deal's structural features. For collateral issued by financial institutions with over \$15 billion in asset size, we consider the alternative cost of funding and if that rate is less than the current rate being paid, we incorporate a prepayment in our estimate of future cash flows. The prepayment rates used are 20% in years 2 and 3 and a 2% prepayment rate thereafter. The modeled cash flows are then used to estimate if all the scheduled principal and interest payments of our investments will be returned.

Credit Analysis A quarterly credit evaluation is performed for each of the 348 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

Probability of Default A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and, therefore, a 100% probability of default is assigned. However, for some deferring collateral there is the possibility that they become current on interest or principal payments at some point in the future and in those cases a probability that the deferral will ultimately cure is assigned. The probability of default is updated quarterly. As of March 31, 2012, default probabilities for performing collateral ranged from 0.33% to 75%.

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

In addition to the above factors, our evaluation of impairment also includes a stress test analysis which provides an estimate of excess subordination for each tranche. We stress the cash flows of each pool by increasing current default assumptions to the level of defaults which results in an adverse change in estimated cash flows. This stressed breakpoint is then used to calculate excess subordination levels for each

pooled trust preferred security. The results of the stress test allows management to identify those pools that are at a greater risk for a future break in cash flows so that we can monitor banks in those pools more closely for potential deterioration of credit quality.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

Our cash flow analysis as of March 31, 2012, indicates that no credit related other-than-temporary impairment has occurred on our pooled trust preferred securities since December 31, 2011. Based upon the analysis performed by management, it is probable that seven of our pooled trust preferred securities will experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded in prior years. These securities are identified in the table on page 18 with 0% Excess Subordination as a Percentage of Current Performing Collateral. For the remaining securities listed in that table, our analysis as of March 31, 2012 indicates it is probable that we will collect all contractual principal and interest payments.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL I, PreTSL IV and MMCap I-Senior. Our cash flow analysis as of March 31, 2012, for all of these impaired securities indicates that it is now probable we will collect principal and interest in excess of what was estimated at the time other-than-temporary impairment charges were recorded. This change can be attributed to improvement in the underlying collateral for these securities and has resulted in our current book value being below the present value of estimated future principal and interest payments. The excess for each bond of the present value of future cash flows over our current book value ranges from 19% to 136% and will be recognized as an adjustment to yield over the remaining life of these securities. During the three-months ended March 31, 2012, \$0.2 million of the excess was recognized as an adjustment to yield on these securities.

The following provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold for the three-months ended March 31:

	For the Three-Months Ended March 31,	
	2012	2011
	(dollars in thousands)	
Balance, beginning (a)	\$ 44,736	\$ 44,850
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	0	0
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	0	0
Increases in cash flows expected to be collected, recognized over the remaining life of the security (b)	(235)	0
Balance, ending	\$ 44,501	\$ 44,850

(a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods.

(b) Represents the increase in cash flows recognized in interest income during the period.

In the first quarter of 2012 and 2011, no other-than-temporary impairment charges were recorded on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of March 31, 2012 and 2011, there are no equity securities in an unrealized loss position.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses

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

	March 31, 2012	December 31, 2011
	(dollars in thousands)	
Commercial, financial, agricultural and other	\$ 1,051,209	\$ 996,739
Real estate construction	64,158	76,564
Residential real estate	1,174,572	1,137,059
Commercial real estate	1,264,060	1,267,432
Loans to individuals	574,589	565,849
Total loans and leases net of unearned income	4,128,588	\$ 4,043,643

During the three-months ended March 31, 2012, loans increased \$84.9 million or 2% compared to balances outstanding at December 31, 2011. Decreases in the real estate construction and commercial real estate categories can be attributed to our continued focus of managing down our large credit exposures while increases in residential real estate and loans to individuals are primarily due to growth in home equity loans and indirect auto lending.

Credit Quality Information

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

Pass Acceptable levels of risk exist in the relationship. Includes all loans not adversely classified as OAEM, substandard or doubtful.

Other Assets Especially Mentioned (OAEM)

Potential weaknesses that deserve management's close attention. The potential weaknesses may result in deterioration of the repayment prospects or weaken the Bank's credit position at some future date. The credit risk may be relatively minor, yet constitute an undesirable risk in light of the circumstances surrounding the specific credit. No loss of principal or interest is expected.

Substandard Well-defined weakness or a weakness that jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of deterioration of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard.

Doubtful Loans with the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable.

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The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk. The Company's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed each quarter, at which time management analyzes the

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Credit Quality Information (Continued)

results, as well as other external statistics and factors, to track the migration of loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas, loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

The following tables represent our credit risk profile by creditworthiness:

	March 31, 2012					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate (dollars in thousands)	Commercial real estate (dollars in thousands)	Loans to individuals	Total
Pass	\$ 956,928	\$ 36,011	\$ 1,162,979	\$ 1,132,559	\$ 574,585	\$ 3,863,062
Non-Pass						
OAEM	27,792	798	5,213	53,898	4	87,705
Substandard	62,138	21,638	6,380	77,603	0	167,759
Doubtful	4,351	5,711	0	0	0	10,062
Total Non-Pass	94,281	28,147	11,593	131,501	4	265,526
Total	\$ 1,051,209	\$ 64,158	\$ 1,174,572	\$ 1,264,060	\$ 574,589	\$ 4,128,588

	December 31, 2011					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate (dollars in thousands)	Commercial real estate (dollars in thousands)	Loans to individuals	Total
Pass	\$ 904,057	\$ 44,914	\$ 1,126,143	\$ 1,110,664	\$ 565,842	\$ 3,751,620
Non-Pass						
OAEM	27,627	4,238	5,484	61,855	7	99,211
Substandard	60,114	21,701	5,432	94,913	0	182,160
Doubtful	4,941	5,711	0	0	0	10,652

Total Non-Pass	92,682	31,650	10,916	156,768	7	292,023
Total	\$ 996,739	\$ 76,564	\$ 1,137,059	\$ 1,267,432	\$ 565,849	\$ 4,043,643

Portfolio Risks

Credit quality measures as of March 31, 2012 improved compared to December 31, 2011 as criticized loans decreased \$26.5 million, or 9%, to \$265.5 million. Further indications of improvement in credit quality can be seen in the \$10.2 million, or 29% decrease in delinquency on accruing loans. For this same period, nonaccrual loans decreased \$0.4 million as a result of payments and charge-offs during the quarter.

Charge-offs for the three-months ended March 31, 2012 totaled \$5.0 million compared to \$8.6 million for the three-months ended March 31, 2011. The most significant charge-off during the three months ended March 31,

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

Portfolio Risks (Continued)

2012 was a \$1.2 million charge taken on a \$2.0 million commercial loan. During the three-months ended March 31, 2011, the most significant charge-offs totaled \$4.9 million and related to construction loan projects in Florida, western Pennsylvania and Ohio.

Criticized loans, or loans designated OAEM, substandard or doubtful, totaled \$265.5 million at March 31, 2012 and represented 6% of the loan portfolio, compared to 7% of the portfolio as of December 31, 2011. These loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate at this time. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

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

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

In addition, during the first three months of 2012, one relationship consisting of two loans, was classified as troubled debt restructuring. These loans increased the nonperforming loan balance by \$53 thousand with no increase in specific reserves.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)**Age Analysis of Past Due Loans by Segment**

The following tables delineate the aging analysis of the recorded investments in past due loans as of March 31, 2012 and December 31, 2011. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

	March 31, 2012						
	30-59 Days past due	60-89 Days past due	90 days and greater and still accruing	Nonaccrual (dollars in thousands)	Total past due and nonaccrual	Current	Total
Commercial, financial, agricultural and other	\$ 1,517	\$ 670	\$ 410	\$ 31,921	\$ 34,518	\$ 1,016,691	\$ 1,051,209
Real estate construction	0	0	0	13,951	13,951	50,207	64,158
Residential real estate	6,378	1,521	5,353	3,995	17,247	1,157,325	1,174,572
Commercial real estate	3,389	1,257	620	28,228	33,494	1,230,566	1,264,060
Loans to individuals	1,866	563	1,743	0	4,172	570,417	574,589
Total	\$ 13,150	\$ 4,011	\$ 8,126	\$ 78,095	\$ 103,382	\$ 4,025,206	\$ 4,128,588

	December 31, 2011						
	30-59 Days past due	60-89 Days past due	90 days and greater and still accruing	Nonaccrual (dollars in thousands)	Total past due and nonaccrual	Current	Total
Commercial, financial, agricultural and other	\$ 5,433	\$ 824	\$ 287	\$ 33,459	\$ 40,003	\$ 956,736	\$ 996,739
Real estate construction	0	180	0	14,911	15,091	61,473	76,564
Residential real estate	7,144	2,100	8,767	3,153	21,164	1,115,895	1,137,059
Commercial real estate	3,671	1,241	157	26,953	32,022	1,235,410	1,267,432
Loans to individuals	2,952	962	1,804	0	5,718	560,131	565,849
Total	\$ 19,200	\$ 5,307	\$ 11,015	\$ 78,476	\$ 113,998	\$ 3,929,645	\$ 4,043,643

The previous tables summarize nonaccrual loans by loan segment. The Company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred.

or the loans reach a certain number of days past due. Generally, loans 90 days or more past due are placed on nonaccrual status.

Nonaccrual Loans

When a loan is placed on nonaccrual, the accrued unpaid interest receivable is reversed against interest income and all future payments received are applied as a reduction to the loan principal. Generally, the loan is returned to

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ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

Nonaccrual Loans (Continued)

accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Impaired Loans

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

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

Nonperforming loans, excluding loans held for sale, decreased \$17.2 million to \$81.6 million at March 31, 2012 compared to \$98.8 million at December 31, 2011. Contributing to this decrease was the payoff of an \$11.3 million loan to a waste management company and the transfer to OREO of collateral for a \$1.2 million loan. The most significant loans placed into nonperforming status during the first quarter of 2012 included \$1.3 million for a consumer mortgage loan and \$1.0 million for a western Pennsylvania commercial real estate loan.

The specific allowance for nonperforming loans decreased by \$1.3 million at March 31, 2012 compared to December 31, 2011. Unfunded commitments related to nonperforming loans were \$10.0 million at March 31, 2012 and an off balance sheet reserve of \$0.2 million has been established for these commitments.

Loans held for sale totaled \$8.1 million and \$13.4 million at March 31, 2012 and December 31, 2011, respectively. The entire balance of loans held for sale in both of these periods was considered nonperforming. While these loans are considered to be nonperforming, they are not taken into consideration when determining the allowance for credit losses as they are carried at the lower of cost or fair value.

Significant nonaccrual loans as of March 31, 2012, include the following;

\$19.6 million, the remaining portion of a \$44.1 million unsecured loan to a western Pennsylvania real estate developer. This loan was originated in the first quarter of 2004 and was placed in nonaccrual status in the fourth quarter of 2009. A settlement plan with the borrower and three other lenders was reached in the fourth quarter of 2010 and resulted in an \$8.0 million principal payment and a \$15.4

million partial charge-off.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Impaired Loans (Continued)

\$16.6 million commercial real estate loan for a real estate developer in eastern Pennsylvania. This loan was originated in the third quarter of 2007 and restructured in the fourth quarter of 2011 and resulted in a charge-off of \$4.2 million. The most recent appraisal for the real estate collateral was completed in the third quarter of 2011.

\$9.1 million to an information technology company in Maryland. This loan was originated in the fourth quarter of 2007 and was placed in nonaccrual in the second quarter of 2011.

\$5.7 million, the remaining portion of a \$20.8 million construction loan for a Florida condominium project. This loan was originated in the second quarter of 2007. Charge-offs of \$15.1 million have been recorded on this loan. The most recent appraisal for the real estate collateral was completed in the fourth quarter of 2011.

\$4.1 million commercial real estate loan for retail development in western Pennsylvania. This loan was originated in the third quarter of 2008 and transferred to held for sale in the fourth quarter of 2011. When transferred to held for sale, the fair value of this loan was determined by a discounted cash flow analysis. The sale of this loan was completed in April 2012 and resulted in a gain of \$1.2 million which will be reflected in the Company's second quarter net income.

Compared to December 31, 2011, there were no changes in the composition of the most significant nonaccrual loans.

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of March 31, 2012 and December 31, 2011. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated based on month-end balances of the loans of the period reported.

	March 31, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(dollars in thousands)					
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$ 2,282	\$ 3,267	\$ 0	\$ 2,010	\$ 3,418	\$ 0
Real estate construction	3,571	6,546	0	10,814	20,161	0
Residential real estate	3,048	3,479	0	3,125	3,513	0
Commercial real estate	23,702	24,950	0	36,777	41,974	0

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Loans to individuals	0	0	0	0	0	0
Subtotal	32,603	38,242	0	52,726	69,066	0

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Impaired Loans (Continued)

	March 31, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:						
Commercial, financial, agricultural and other	30,139	31,457	7,555	34,056	34,341	9,069
Real estate construction	10,380	31,375	2,891	6,298	21,402	2,960
Residential real estate	1,823	1,823	553	955	955	93
Commercial real estate	6,632	8,295	921	4,717	4,863	1,114
Loans to individuals	0	0	0	0	0	0
Subtotal	48,974	72,950	11,920	46,026	61,561	13,236
Total	\$ 81,577	\$ 111,192	\$ 11,920	\$ 98,752	\$ 130,627	\$ 13,236

	For the Three-Months Ended March 31,			
	2012	2011		
	Average Recorded Investment	Interest Income Recognized (dollars in thousands)	Average recorded investment	Interest Income Recognized
With no related allowance recorded:				
Commercial, financial, agricultural and other	\$ 3,258	\$ 18	\$ 1,408	\$ 3
Real estate construction	3,646	0	15,738	0
Residential real estate	3,354	5	1,938	1
Commercial real estate	24,275	23	18,989	11
Loans to individuals	0	0	25	0
Subtotal	34,533	46	38,098	15
With an allowance recorded:				
Commercial, financial, agricultural and other	30,350	3	25,911	2
Real estate construction	10,432	0	30,061	1
Residential real estate	952	7	375	0
Commercial real estate	5,889	9	32,242	13

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Loans to individuals	0	0	0	0
Subtotal	47,623	19	88,589	16
Total	\$ 82,156	\$ 65	\$ 126,687	\$ 31

Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Impaired Loans (Continued)

The following table provides detail as to the total troubled debt restructured loans and total commitments outstanding on troubled debt restructured loans:

	March 31, 2012	December 31, 2011
	(dollars in thousands)	
Troubled debt restructured loans		
Accrual status	\$ 3,482	\$ 20,276
Nonaccrual status	41,690	44,841
Total	\$ 45,172	\$ 65,117
Commitments		
Letters of credit	\$ 2	\$ 12,580
Unused lines of credit	0	42
Total	\$ 2	\$ 12,622

At March 31, 2012, troubled debt restructured loans on accruing status decreased \$16.8 million compared to December 31, 2011 and commitments related to troubled debt restructured loans decreased \$12.6 million for the same period. These decreases are primarily a result of the payoff of an \$11.3 million loan to a waste management company in Pennsylvania as a result of the sale of the business. In addition, a \$2.2 million loan to a retail development company in western Pennsylvania paid off during the first quarter. During 2012, a \$42 thousand charge-off was recorded as part of the restructuring for one borrower. The remainder of changes in loan balances for 2012 between the pre-modification balance and the post-modification balance is due to customer payments.

During 2011, the changes between pre-modification balances and post-modification balances are due to customer payments.

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ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)**Impaired Loans (Continued)**

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the three-months ended March 31:

	2012						
	Type of Modification				Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments			
					(dollars in thousands)		
Residential real estate	2	\$ 0	\$ 97	\$ 0	\$ 97	\$ 53	\$ 0

Type of Modification	2011						
	Number of Contracts	Extend Maturity	Modify Rate	Modify Payments (dollars in thousands)	Total Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve
Commercial, financial, agricultural and other	9	\$ 100	\$ 105	\$ 2,168	\$ 2,373	\$ 2,372	\$ 708
Real estate construction	3	354	0	0	354	364	18
Residential real estate	1	0	12	0	12	12	0
Commercial real estate	11	7,130	199	648	7,977	7,972	1,554
Total	24	\$ 7,584	\$ 316	\$ 2,816	\$ 10,716	\$ 10,720	\$ 2,280

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this footnote. Loans defined as modified due to a change in rate include loans that were modified for a change in rate as well as a reamortization of the principal and an extension of the maturity. For the three-months ended March 31, 2012 and 2011, \$0.1 million and \$0.3 million, respectively, of total rate modifications represent loans with modifications to the rate as well as payment due to reamortization.

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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Impaired Loans (Continued)

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

	2012		2011	
	Number of	Recorded	Number of	Recorded
	Contracts	Investment	Contracts	Investment
		(dollars in thousands)		
Commercial, financial, agricultural and other	0	\$ 0	1	\$ 150
Real estate construction	0	0	1	88
Residential real estate	0	0	0	0
Commercial real estate	2	980	0	0
Loans to individuals	0	0	0	0
Total	2	\$ 980	2	\$ 238

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

	For the Three-Months Ended March 31, 2012						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
Allowance for credit losses:							
Beginning Balance	\$ 18,200	\$ 6,756	\$ 8,237	\$ 18,961	\$ 4,244	\$ 4,836	\$ 61,234
Charge-offs	(1,914)	(190)	(1,712)	(235)	(941)	0	(4,992)
Recoveries	238	56	133	158	118	0	703
Provision	1,619	(195)	44	487	831	1,001	3,787
Ending Balance	\$ 18,143	\$ 6,427					