

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

July 30, 2010

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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 June 30, 2010

Or

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

Commission File Number 001-11138

**First Commonwealth Financial Corporation**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**25-1428528**  
(I.R.S. Employer  
Identification No.)

**22 North Sixth Street, Indiana, PA**  
(Address of principal executive offices)

**15701**  
(Zip Code)

**724-349-7220**

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 July 28, 2010, was 86,243,009.

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**FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES**

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2010	December 31, 2009
	(dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$ 86,855	\$ 89,232
Interest-bearing bank deposits	1,503	327
Securities available for sale, at fair value	996,220	1,133,856
Securities held to maturity, at amortized cost, (Fair value \$0 at June 30, 2010 and \$37,586 at December 31, 2009)	0	36,758
Other investments	51,431	51,431
Loans:		
Portfolio loans	4,434,291	4,636,501
Allowance for credit losses	(88,046)	(81,639)
<b>Net loans</b>	<b>4,346,245</b>	<b>4,554,862</b>
Premises and equipment, net	69,203	70,742
Other real estate owned	21,548	24,287
Goodwill	159,956	159,956
Other intangibles, net	6,175	7,407
Other assets	318,933	317,435
<b>Total assets</b>	<b>\$ 6,058,069</b>	<b>\$ 6,446,293</b>
<b>Liabilities</b>		
Deposits (all domestic):		
Noninterest-bearing	\$ 651,250	\$ 641,231
Interest-bearing	4,087,388	3,894,554
<b>Total deposits</b>	<b>4,738,638</b>	<b>4,535,785</b>
Short-term borrowings	355,682	958,932
Subordinated debentures	105,750	105,750
Other long-term debt	155,250	168,697
<b>Total long-term debt</b>	<b>261,000</b>	<b>274,447</b>
Other liabilities	48,499	38,318
<b>Total liabilities</b>	<b>5,403,819</b>	<b>5,807,482</b>
<b>Shareholders Equity</b>		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
	86,971	86,600

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Common stock, \$1 par value per share, 200,000,000 shares authorized; 86,971,329 shares issued and 86,242,139 shares outstanding at June 30, 2010; 86,600,431 shares issued and 85,151,875 shares outstanding at December 31, 2009

Additional paid-in capital	303,961	301,523
Retained earnings	271,139	278,887
Accumulated other comprehensive income (loss), net	5,236	(6,045)
Treasury stock (729,190 at June 30, 2010 and 1,448,556 shares at December 31, 2009, at cost)	(8,457)	(16,554)
Unearned ESOP shares	(4,600)	(5,600)
<b>Total shareholders equity</b>	<b>654,250</b>	<b>638,811</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 6,058,069</b>	<b>\$ 6,446,293</b>

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 OPERATIONS

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
(dollars in thousands, except share data)				
<b>Interest Income</b>				
Interest and fees on loans	\$ 57,367	\$ 57,793	\$ 114,775	\$ 116,068
Interest and dividends on investments:				
Taxable interest	9,664	13,177	20,131	26,885
Interest exempt from federal income taxes	1,839	2,660	3,990	5,554
Dividends	19	89	46	152
Interest on bank deposits	48	1	73	2
<b>Total interest income</b>	<b>68,937</b>	<b>73,720</b>	<b>139,015</b>	<b>148,661</b>
<b>Interest Expense</b>				
Interest on deposits	13,067	17,874	26,647	37,450
Interest on short-term borrowings	616	1,133	1,468	2,480
Interest on subordinated debentures	1,390	1,559	2,765	3,325
Interest on other long-term debt	1,268	1,666	2,441	3,319
<b>Total interest on long-term debt</b>	<b>2,658</b>	<b>3,225</b>	<b>5,206</b>	<b>6,644</b>
<b>Total interest expense</b>	<b>16,341</b>	<b>22,232</b>	<b>33,321</b>	<b>46,574</b>
<b>Net Interest Income</b>	<b>52,596</b>	<b>51,488</b>	<b>105,694</b>	<b>102,087</b>
Provision for credit losses	4,010	48,248	49,030	56,490
<b>Net Interest Income after Provision for Credit Losses</b>	<b>48,586</b>	<b>3,240</b>	<b>56,664</b>	<b>45,597</b>
<b>Non-Interest Income</b>				
Changes in fair value on impaired securities	190	(14,421)	(1,327)	(43,010)
Non-credit related (gains) losses on securities not expected to be sold (recognized in other comprehensive income)	(2,300)	5,660	(3,533)	24,383
<b>Net impairment losses</b>	<b>(2,110)</b>	<b>(8,761)</b>	<b>(4,860)</b>	<b>(18,627)</b>
Net securities gains	562	56	982	80
Trust income	1,398	1,151	2,892	2,238
Service charges on deposit accounts	4,603	4,406	8,755	8,243
Insurance and retail brokerage commissions	1,866	1,756	3,728	3,372
Income from bank owned life insurance	1,301	1,034	2,558	2,172
Card related interchange income	2,686	2,138	5,006	4,034
Other income	2,343	4,935	5,039	7,943
<b>Total non-interest income</b>	<b>12,649</b>	<b>6,715</b>	<b>24,100</b>	<b>9,455</b>
<b>Non-Interest Expense</b>				
Salaries and employee benefits	21,047	21,081	43,374	43,581
Net occupancy expense	3,539	3,528	7,432	7,528
Furniture and equipment expense	3,101	2,977	6,266	5,952

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Data processing expense	1,478	1,165	2,915	2,297
Pennsylvania shares tax expense	1,457	1,312	2,514	2,643
Intangible amortization	576	743	1,233	1,486
Collection and repossession expense	794	1,750	1,717	2,651
Other professional fees and services	1,062	847	2,228	1,910
FDIC insurance	2,012	4,863	3,975	6,384
Loss on sale or write-down of assets	2,314	83	2,397	112
Other operating expenses	6,298	6,986	12,866	14,139
<b>Total non-interest expense</b>	<b>43,678</b>	<b>45,335</b>	<b>86,917</b>	<b>88,683</b>
<b>Income (Loss) before income taxes</b>	<b>17,557</b>	<b>(35,380)</b>	<b>(6,153)</b>	<b>(33,631)</b>
Income tax provision (benefit)	4,015	(16,761)	(6,527)	(16,699)
<b>Net Income (Loss)</b>	<b>\$ 13,542</b>	<b>\$ (18,619)</b>	<b>\$ 374</b>	<b>\$ (16,932)</b>
Average Shares Outstanding	85,777,550	84,559,889	85,405,715	84,540,684
Average Shares Outstanding Assuming Dilution	85,788,566	84,559,889	85,412,371	84,540,684
<b>Per Share Data:</b>				
Basic Earnings (Loss) per Share	\$ 0.15	\$ (0.22)	\$ 0.00	\$ (0.20)
Diluted Earnings (Loss) per Share	0.15	(0.22)	0.00	(0.20)
Cash Dividends Declared per Common Share	0.01	0.00	0.04	0.12

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

(dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
<b>Balance at December 31, 2009</b>	<b>\$ 86,600</b>	<b>\$ 301,523</b>	<b>\$ 278,887</b>	<b>\$ (6,045)</b>	<b>\$ (16,554)</b>	<b>\$ (5,600)</b>	<b>\$ 638,811</b>
Comprehensive income							
Net income			374				374
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period				6,431			6,431
Non-credit related gains on securities not expected to be sold				2,297			2,297
Less: reclassification adjustment for losses on securities included in net income				2,553			2,553
<b>Total other comprehensive income</b>							<b>\$ 11,281</b>
<b>Total comprehensive income</b>							<b>\$ 11,655</b>
Cash dividends declared			(3,402)				(3,402)
Net decrease in unearned ESOP shares						1,000	1,000
ESOP market value adjustment (\$500 thousand, net of \$175 thousand tax benefit)		(325)					(325)
Discount on dividend reinvestment plan purchases		(22)					(22)
Treasury stock acquired					(8)		(8)
Treasury stock reissued		656	(4,552)		7,808		3,912
Restricted stock			(168)		297		129
Capital issuance	371	2,129					2,500
<b>Balance at June 30, 2010</b>	<b>\$ 86,971</b>	<b>\$ 303,961</b>	<b>\$ 271,139</b>	<b>\$ 5,236</b>	<b>\$ (8,457)</b>	<b>\$ (4,600)</b>	<b>\$ 654,250</b>

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

(dollars in thousands)

(Continued)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
<b>Balance at December 31, 2008</b>	<b>\$ 86,600</b>	<b>\$ 303,008</b>	<b>\$ 309,947</b>	<b>\$ (21,269)</b>	<b>\$ (17,907)</b>	<b>\$ (7,600)</b>	<b>\$ 652,779</b>
Cumulative effect from adoption of FASB ASC Topic 320-10-65 (\$6.5 million, net of \$2.3 million tax)			4,223	(4,223)			
<b>Balance at January 1, 2009</b>	<b>86,600</b>	<b>303,008</b>	<b>314,170</b>	<b>(25,492)</b>	<b>(17,907)</b>	<b>(7,600)</b>	<b>652,779</b>
Comprehensive income							
Net loss			(16,932)				(16,932)
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period				10,661			10,661
Non-credit related losses on securities not expected to be sold				(15,849)			(15,849)
Less: reclassification adjustment for losses on securities included in net loss				12,062			12,062
<b>Total other comprehensive income</b>							<b>\$ 6,874</b>
<b>Total comprehensive income</b>							<b>\$ (10,058)</b>
Cash dividends declared			(10,146)				(10,146)
Net decrease in unearned ESOP shares						1,000	1,000
ESOP market value adjustment (\$316 thousand, net of \$110 thousand tax benefit)		(206)					(206)
Discount on dividend reinvestment plan purchases		(352)					(352)
Tax benefit of stock options exercised		149					149
Treasury stock reissued		1			51		52
Restricted stock		2			90		92
<b>Balance at June 30, 2009</b>	<b>\$ 86,600</b>	<b>\$ 302,602</b>	<b>\$ 287,092</b>	<b>\$ (18,618)</b>	<b>\$ (17,766)</b>	<b>\$ (6,600)</b>	<b>\$ 633,310</b>

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

	<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>	
<b>Operating Activities</b>		
Net income (loss)	\$ 374	\$ (16,932)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for credit losses	49,030	56,490
Deferred tax benefit	(7,526)	(18,711)
Depreciation and amortization	5,579	4,998
Net losses on securities and other assets	3,634	18,114
Net amortization of premiums and discounts on securities	(97)	(146)
Net amortization of premiums and discounts on long-term debt	(529)	(1,049)
Income from increase in cash surrender value of bank owned life insurance	(2,558)	(2,172)
Decrease in interest receivable	2,111	2,491
Decrease in interest payable	(146)	(1,047)
Increase (decrease) in income tax payable	1,970	(2,179)
Other-net	8,452	4,137
<b>Net cash provided by operating activities</b>	<b>60,294</b>	<b>43,994</b>
<b>Investing Activities</b>		
Transactions in securities held to maturity:		
Proceeds from maturities and redemptions	13,063	6,597
Transactions in securities available for sale:		
Proceeds from sales	19,019	3,829
Proceeds from maturities and redemptions	277,198	199,199
Purchases	(121,309)	(125,762)
Proceeds from sales of other assets	4,468	3,736
Net decrease (increase) in loans	158,234	(169,774)
Purchases of premises and equipment	(2,908)	(3,987)
<b>Net cash provided by (used in) investing activities</b>	<b>347,765</b>	<b>(86,162)</b>
<b>Financing Activities</b>		
Net decrease in federal funds purchased	(87,550)	(139,700)
Net decrease in other short-term borrowings	(515,700)	(1,778)
Net increase in deposits	202,929	205,664
Repayments of other long-term debt	(61,919)	(2,925)
Proceeds from issuance of long-term debt	50,000	2,403
Proceeds from issuance of common stock	2,500	0
Discount on dividend reinvestment plan purchases	(22)	(352)
Dividends paid	(3,402)	(24,604)
Proceeds from reissuance of treasury stock	3,912	52
Purchase of treasury stock	(8)	0
Stock option tax benefit	0	149

<b>Net cash (used in) provided by financing activities</b>	<b>(409,260)</b>	<b>38,909</b>
Net decrease in cash and cash equivalents	(1,201)	(3,259)
Cash and cash equivalents at beginning of period	89,559	88,566
<b>Cash and cash equivalents at end of period</b>	<b>\$ 88,358</b>	<b>\$ 85,307</b>

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)*

June 30, 2010

**Note 1 Basis of Presentation**

The accounting and reporting policies of First Commonwealth Financial Corporation and its subsidiaries ( First Commonwealth ) 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 six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full year of 2010. These interim financial statements should be read in conjunction with First Commonwealth s 2009 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 ( SEC ), 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.

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.

Loan type balances presented for December 31, 2009 were reclassified from those previously disclosed in order to more consistently categorize loans based on collateral rather than purpose and be more consistent with regulatory definitions.

**Note 2 Supplemental Comprehensive Income Disclosures**

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

	June 30, 2010				June 30, 2009	
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
	(dollars in thousands)					
<b>Unrealized gains on securities:</b>						
Unrealized holding gains arising during the period	\$ 9,895	\$ (3,464)	\$ 6,431	\$ 16,401	\$ (5,740)	\$ 10,661
Non-credit related gains (losses) on securities not expected to be sold	3,533	(1,236)	2,297	(24,383)	8,534	(15,849)
Losses realized in net income	3,928	(1,375)	2,553	18,557	(6,495)	12,062
<b>Net unrealized gains</b>	<b>17,356</b>	<b>(6,075)</b>	<b>11,281</b>	<b>10,575</b>	<b>(3,701)</b>	<b>6,874</b>
<b>Other comprehensive income</b>	<b>\$ 17,356</b>	<b>\$ (6,075)</b>	<b>\$ 11,281</b>	<b>\$ 10,575</b>	<b>\$ (3,701)</b>	<b>\$ 6,874</b>



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 3 Supplemental Cash Flow Disclosures**

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

	<b>For the Six Months Ended June 30, 2010                  2009 (dollars in thousands)</b>	
Cash paid (received) during the year for:		
Interest	\$ 34,071	\$ 48,425
Income taxes	(1,184)	3,900
Non-cash investing and financing activities:		
ESOP loan reductions	\$ 1,000	\$ 1,000
Loans transferred to other real estate owned and repossessed assets	1,769	25,834
Gross increase in market value adjustment to securities available for sale	17,356	10,575
Transfer of securities from held to maturity to available for sale	22,433	0

**Note 4 Variable Interest Entities**

In December 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Accounting Standards Codification ( ASC ) 810-10, Consolidation. As defined by ASC 810-10, a Variable Interest Entity ( VIE ) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

FASB Accounting Standards Update ( ASU ) No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities amends the ASC for FASB Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 167. First Commonwealth adopted the new guidance under FASB ASU No. 2009-17 on January 1, 2010.

As part of its community reinvestment initiatives, First Commonwealth has invested in ten 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. Management evaluates the limited partnerships for impairment on an annual basis or more frequently as events warrant. There was no impairment recorded in 2009 or the first half of 2010. Based on ASC 810-10, First Commonwealth has determined that these investments will not be consolidated, but will continue to be accounted for under the equity method whereby First Commonwealth s portion of the partnership s results are recognized as earned. These investments are included in Other assets on the Condensed Consolidated Statements of Financial Condition.

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

	June 30, 2010	December 31, 2009
Low Income Housing Limited Partnership Investments	\$ 1,128	\$ 1,289

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**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:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(dollars in thousands)</b>	
Commitments to extend credit	\$ 1,593,099	\$ 1,598,599
Financial standby letters of credit	75,810	83,630
Performance standby letters of credit	77,850	76,194
Commercial letters of credit	788	1,275

The current notional amounts outstanding as of June 30, 2010 include financial standby letters of credit of \$2.1 million, performance standby letters of credit of \$3.9 million and commercial letters of credit of \$0.8 million issued during the first six months of 2010. A liability of \$0.2 million has been recorded as of June 30, 2010, 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. See Note 11, Fair Value of Assets and Liabilities, for additional information.

Unused commitments and letters of credit provide exposure to future credit loss in the event of non-performance by the guaranteed parties. An evaluation of the credit risk in these instruments resulted in the recording of a liability of \$0.6 million as of June 30, 2010. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and letters of credit.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 6 Investment Securities**

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

	June 30, 2010			Estimated	December 31, 2009			Estimated
	Amortized	Gross	Gross	Fair	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value	Cost	Unrealized	Unrealized	Value
		Gains	Losses			Gains	Losses	
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	\$ 40,197	\$ 4,031	\$ 0	\$ 44,228	\$ 44,357	\$ 2,995	\$ 0	\$ 47,352
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage Backed Securities Residential	650,354	36,137	(3)	686,488	749,417	28,665	(289)	777,793
Mortgage Backed Securities Commercial	262	1	(1)	262	281	1	(6)	276
Other Government Sponsored Enterprises	84,555	311	(2)	84,864	75,000	147	(172)	74,975
Obligations of States and Political Subdivisions								
Corporate Securities	118,175	3,746	0	121,921	170,278	3,476	(897)	172,857
Pooled Trust Preferred Collateralized Debt Obligations	21,240	222	(888)	20,574	22,545	52	(3,767)	18,830
	64,431	0	(35,770)	28,661	69,374	0	(39,644)	29,730
<b>Total Debt Securities</b>	<b>979,214</b>	<b>44,448</b>	<b>(36,664)</b>	<b>986,998</b>	<b>1,131,252</b>	<b>35,336</b>	<b>(44,775)</b>	<b>1,121,813</b>
Equity Securities	9,278	22	(78)	9,222	12,231	218	(406)	12,043
<b>Total Securities Available for Sale</b>	<b>\$ 988,492</b>	<b>\$ 44,470</b>	<b>\$ (36,742)</b>	<b>\$ 996,220</b>	<b>\$ 1,143,483</b>	<b>\$ 35,554</b>	<b>\$ (45,181)</b>	<b>\$ 1,133,856</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 6 Investment Securities (Continued)**

The amortized cost and estimated fair value of debt securities available for sale at June 30, 2010, 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
Due within one year	\$ 2,402	\$ 2,402
Due after one but within five years	98,359	99,349
Due after five but within ten years	15,381	16,265
Due after ten years	172,259	138,004
	288,401	256,020
Mortgage Backed Securities (a)	690,813	730,978
<b>Total Debt Securities</b>	<b>\$ 979,214</b>	<b>\$ 986,998</b>

(a) Mortgage Backed Securities include an amortized cost of \$40 million and an estimated fair value of \$44 million for Obligations of U.S. Government agencies issued by Ginnie Mae. Obligations of U.S. Government-sponsored enterprises includes obligations issued by Fannie Mae and Freddie Mac which had an amortized cost of \$651 million and an estimated fair value of \$687 million.

For the six months ended June 30, 2010, net securities gains included \$1.7 million in gains and \$0.8 million in losses for securities available for sale.

Securities available for sale with an estimated fair value of \$645 million and \$637 million were pledged as of June 30, 2010 and December 31, 2009, respectively, to secure public deposits and for other purposes required or permitted by law.

On June 30, 2010, the company reclassified its entire held to maturity portfolio to the available for sale portfolio. At the time of reclassification, the investments had an amortized cost of \$22.4 million of which \$22.3 million were obligations of states and political subdivisions and \$0.1 million were mortgage backed securities. When the securities were transferred two of the obligations of states and political subdivision securities were in an unrealized loss position totaling \$45 thousand, the remaining bonds in that category were in an unrealized gain position of \$0.8 million and all of the mortgage backed securities were in an unrealized gain position. Other-than-temporary impairment charges of \$45 thousand were recognized on the two state and political subdivision securities that were in an unrealized loss position.

The transfer of securities from the held to maturity portfolio is expected to result in the liquidation of the obligations of states and political subdivisions portfolio in order to mitigate future credit risk and improve our tax position.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 6 Investment Securities (Continued)**

As of June 30, 2010, there were no securities classified as held to maturity. Below is an analysis of the amortized cost and estimated fair values of debt securities held to maturity at December 31, 2009:

	Amortized Cost	December 31, 2009		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(dollars in thousands)		
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ 29	\$ 3	\$ 0	\$ 32
Obligations of U.S. Government Sponsored Enterprises:				
Mortgage Backed Securities Residential	89	7	0	96
Obligations of States and Political Subdivisions	36,640	912	(94)	37,458
<b>Total Securities Held to Maturity</b>	<b>\$ 36,758</b>	<b>\$ 922</b>	<b>\$ (94)</b>	<b>\$ 37,586</b>

For the six months ended June 30, 2010, net securities gains included \$50 thousand in gains and no losses for debt securities held to maturity. There were no sales of securities held to maturity in 2009.

Securities held to maturity with an estimated fair value of \$37 million were pledged as of December 31, 2009, to secure public deposits and for other purposes required or permitted by law.

**Note 7 Other Investments**

As a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh, First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2010 and December 31, 2009, our FHLB stock totaled \$51.4 million and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as discontinued the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008. Management reviewed the FHLB's Form 10-Q for the period ended March 31, 2010 filed with the SEC on May 10, 2010.

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;

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 7 Other Investments (Continued)**

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

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

its liquidity and funding position.

After evaluating all of these considerations, First Commonwealth concluded that the par value of its investment in FHLB stock is recoverable. Accordingly, no impairment charge was recorded on these securities for the six months ended June 30, 2010. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

**Note 8 Impairment of Investment Securities**

As required by FASB ASC Topic 320, Investments—Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in other comprehensive income (OCI). In the second quarter of 2010, we recorded \$2.1 million in other-than-temporary impairment charges. These charges include \$2.0 million in credit related other-than-temporary impairment on three trust preferred collateralized debt obligations, \$0.1 million recorded on one equity security and a \$45 thousand write-down on municipals transferred from held to maturity to available for sale. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities. Additionally, \$2.3 million in non-credit related gains on securities not expected to be sold was recorded in OCI on our trust preferred collateralized debt obligations.

In accordance with FASB ASC Topic 320, the non-credit related portion of other-than-temporary impairment losses recognized in prior year earnings was reclassified as a cumulative effect adjustment that increased retained earnings and decreased accumulated OCI at the beginning of 2009. In 2008, \$13.0 million in other-than-temporary impairment charges were recognized, of which \$6.5 million related to non-credit related impairment on debt securities. Therefore, the cumulative effect adjustment to retained earnings totaled \$6.5 million, or \$4.2 million net of tax on January 1, 2009.

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

In the Condensed Consolidated Statement of Operations, the 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) losses on securities not expected to be sold line represents the gains and losses on the securities resulting from factors other than credit. The non-credit related gain or loss is disclosed in the Condensed Consolidated Statement of Operations and recognized through other comprehensive income. The Net impairment losses line represents the credit related losses recognized in total non-interest 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



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

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, interest deferrals and whether the federal government continues to provide assistance to financial institutions. 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 determine 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 11, Fair Values of Assets and Liabilities for additional information.

The following table presents the gross unrealized losses and estimated fair values at June 30, 2010 for our available for sale securities by investment category and time frame for which the loss has been outstanding:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government-Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 25,014	\$ (3)	\$ 0	\$ 0	\$ 25,014	\$ (3)
Mortgage Backed Securities Commercial	202	(1)	0	0	202	(1)
Other Government-Sponsored Enterprises	4,729	(2)	0	0	4,729	(2)
Corporate Securities	0	0	14,959	(888)	14,959	(888)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	28,661	(35,770)	28,661	(35,770)
<b>Total Debt Securities</b>	<b>29,945</b>	<b>(6)</b>	<b>43,620</b>	<b>(36,658)</b>	<b>73,565</b>	<b>(36,664)</b>
Equity Securities	933	(68)	40	(10)	973	(78)
<b>Total Securities</b>	<b>\$ 30,878</b>	<b>\$ (74)</b>	<b>\$ 43,660</b>	<b>\$ (36,668)</b>	<b>\$ 74,538</b>	<b>(36,742)</b>

At June 30, 2010, less than 1% of the total unrealized losses were comprised of fixed income securities issued by U.S. Government agencies, U.S. Government-sponsored enterprises and Obligations of States and Political Subdivisions. Corporate fixed income comprised 2% of the total unrealized losses, while pooled trust preferred collateralized debt obligations accounted for 97% and equity securities accounted for less than 1% of unrealized losses. The unrealized losses in the equity securities category consist of three issues. One of these issues has been in a continuous unrealized loss position for more than twelve months but is not considered impaired based on our analysis of the investment and the amount of the unrealized loss.

Corporate securities had a total unrealized loss of \$0.9 million as of June 30, 2010. Included in this category are single issue trust preferred securities and corporate debentures issued primarily by money center and large





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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

regional banks. As of June 30, 2010, our single issue trust preferred securities had an amortized cost of \$20.0 million and an estimated fair value of \$19.3 million, while our corporate debentures had a book value of \$1.2 million and an estimated fair value of \$1.3 million. After a review of each of the issuer's asset quality, earnings trend and capital position, it was determined that none of these issues were other-than-temporarily impaired. Additionally, all interest payments on these securities are being made as contractually required.

The following table presents the gross unrealized losses and estimated fair values at December 31, 2009 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 35,202	\$ (286)	\$ 307	\$ (3)	\$ 35,509	\$ (289)
Mortgage Backed Securities Commercial	169	(5)	43	(1)	212	(6)
Other Government Sponsored Enterprises	49,828	(172)	0	0	49,828	(172)
Corporate Securities	5,070	(641)	12,521	(3,126)	17,591	(3,767)
Pooled Trust Preferred Collateralized Debt Obligations	4,985	(3,698)	24,745	(35,946)	29,730	(39,644)
Obligations of States and Political Subdivisions	25,832	(150)	21,154	(841)	46,986	(991)
<b>Total Debt Securities</b>	<b>121,086</b>	<b>(4,952)</b>	<b>58,770</b>	<b>(39,917)</b>	<b>179,856</b>	<b>(44,869)</b>
Equity Securities	1,476	(402)	46	(4)	1,522	(406)
<b>Total Securities</b>	<b>\$ 122,562</b>	<b>\$ (5,354)</b>	<b>\$ 58,816</b>	<b>\$ (39,921)</b>	<b>\$ 181,378</b>	<b>\$ (45,275)</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

The following table provides additional information related to our corporate securities as of June 30, 2010:

**Corporate Securities****(Single Issue Trust Preferred Securities and Corporate Debentures)**

(dollars in thousands)

Name of Issuer	Name of Issuer's Parent Company	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Current Moody's / Fitch Issuer Ratings (a)
BP Bank America Inst	Bank of America Corp	\$ 1,025	\$ 1,014	\$ (11)	Baa3/BB/*+
BP MBNA Capital	Bank of America Corp	1,026	1,004	(22)	Baa3/BB/*+
NB Capital Trust II	Bank of America Corp	3,073	2,988	(85)	Baa3/BB/*+
North Fork Cap Trust	Capital One Financial Corp	1,265	1,263	(2)	Baa3/BBB
Reliance Cap Trust	Capital One Financial Corp	488	387	(101)	NA
FCB/SC Cap Trust	First Citizens Bancorporation	494	405	(89)	NA
Fifth Third Cap	Fifth Third Bancorp	250	256	6	NA
PBI Capital Trust	Fulton Financial Corp	247	215	(32)	NA
KeyCorp Capital II	KeyCorp	1,854	1,827	(27)	Baa3/BBB
Union State Capital Trust I	KeyCorp	1,032	995	(37)	NA
BSB Cap Trust	M&T Bank Corp	464	234	(230)	NA
First Empire Cap MTB	M&T Bank Corp	4,878	4,626	(252)	Baa2/BBB
PNC Capital Trust	PNC Financial Services Group	453	468	15	NA
Susquehanna Cap	Susquehanna Bancshares	500	503	3	NA
First Union Instit Cap I	Wells Fargo Co.	3,000	3,072	72	Baa2/A
<b>Total Single Issue Trust Preferred Securities</b>		<b>20,049</b>	<b>19,257</b>	<b>(792)</b>	
Fulton Financial Corp	Fulton Financial Corp	449	485	36	Baa2/BBB+
Provident Bk MD	M&T Bank Corp	245	267	22	NA/BBB+
PNC Bank NA	PNC Financial Services Group	497	565	68	A2/A
<b>Total Corporate Debentures</b>		<b>1,191</b>	<b>1,317</b>	<b>126</b>	
<b>Total Corporate Securities</b>		<b>\$ 21,240</b>	<b>\$ 20,574</b>	<b>\$ (666)</b>	

(a)\*+ indicates positive watch

As of June 30, 2010, the book value of our pooled trust preferred collateralized debt obligations totaled \$64.4 million with an estimated fair value of \$28.7 million, which includes securities comprised of 371 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainder are mezzanine tranches. Two of the pooled issues, representing \$11.9 million of the \$64.4 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 June 30, 2010, after taking into account management's best estimates of future interest deferrals and defaults, eleven of our securities had no excess subordination in the tranches we own and three of our securities had excess subordination which ranged from 26% to 75% of the

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

current performing collateral. As of June 30, 2010, five of our pooled trust preferred collateralized obligations with an estimated fair value of \$6.5 million are not receiving interest payments and therefore are reflected in the table on page 54 as non-performing securities.

The following table provides additional information related to our pooled trust preferred collateralized debt obligations as of June 30, 2010:

**Pooled Trust Preferred Collateralized Debt Obligations**

(dollars in thousands)

Deal	Class	Amortized Cost	Estimated Fair Value	Unrealized Loss	Moody s/ Fitch Ratings	Number of Banks	Actual Deferrals and Defaults as a Percentage of Current Collateral	Excess Subordination as a Percentage of Current Performing Collateral
Pre TSL I	Senior	\$ 3,675	\$ 3,238	\$ (437)	A1/BBB	32	24.86%	74.97%
Pre TSL IV	Mezzanine	1,830	774	(1,056)	Ca/CCC	6	27.07	25.56
Pre TSL V	Mezzanine	452	194	(258)	Ba3/C	4	43.12	0.00
Pre TSL VI	Mezzanine	239	144	(95)	Caa1/CC	5	80.98	0.00
Pre TSL VII	Mezzanine	4,012	1,482	(2,530)	Ca/C	19	70.48	0.00
Pre TSL VIII	Mezzanine	1,619	391	(1,228)	C/C	36	43.67	0.00
Pre TSL IX	Mezzanine	2,251	854	(1,397)	Ca/C	49	29.22	0.00
Pre TSL X	Mezzanine	1,300	244	(1,056)	C/C	57	43.69	0.00
Pre TSL XII	Mezzanine	5,389	1,316	(4,073)	Ca/C	77	35.70	0.00
Pre TSL XIII	Mezzanine	13,653	5,278	(8,375)	Ca/C	65	21.58	0.00
Pre TSL XIV	Mezzanine	13,600	4,165	(9,435)	Ca/C	64	22.94	0.00
MMCap I	Senior	8,260	6,836	(1,424)	A3/A	29	21.60	74.54
MMCap I	Mezzanine	841	367	(474)	Ca/CCC	29	21.60	0.00
MM Comm IX	Mezzanine	7,310	3,378	(3,932)	Caa3/C	34	38.85	0.00
<b>Total</b>		<b>\$ 64,431</b>	<b>\$ 28,661</b>	<b>\$ (35,770)</b>				

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. In the first six months of 2010, \$4.7 million in credit related other-than-temporary impairment charges were recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments we determine a credit related portion and a non-credit related portion of other-than-temporary impairment. The credit related

portion is recognized in earnings and represents the expected shortfall in future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the estimated 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 this analysis follows.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at June 30, 2010. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

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

**Estimate of Future Cash Flows** Cash flows are constructed in an INTEX cash flow model. INTEX is a proprietary cash flow model recognized as the industry standard for analyzing all types of collateralized debt obligations. It includes each deal's structural features updated with trustee information, including asset-by-asset detail, as it becomes available. 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 371 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. Banks currently in default or deferring interest payments are assigned a 100% probability of default. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators. A 10% projected recovery rate is applied to projected deferrals and a 0% projected recovery rate is applied to defaults. The probability of default is updated quarterly. As of June 30, 2010, 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)*

June 30, 2010

**Note 8 Impairment of Investment Securities (Continued)**

Based upon the analysis performed by management as of June 30, 2010, it is probable that eleven of our pooled trust preferred securities will experience principal and interest shortfalls. These securities are identified in the table on page 18 with 0% Excess Subordination as a Percentage of Current Performing Collateral. The \$2.1 million in credit related other-than-temporary impairment charges recognized in the second quarter of 2010 are primarily the result of additional interest deferrals within these pools. Our analysis as of June 30, 2010 indicates it is probable that we will collect all contractual principal and interest payments on the three remaining pooled trust preferred securities.

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

	For the Three Months Ended June 30, 2010		For the Six Months Ended June 30, 2009	
	2010	2009	2010	2009
	(dollars in thousands)			
Balance, beginning (a)	\$ 38,911	\$ 10,921	\$ 36,161	\$ 2,516
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	0	1,613	0	11,675
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	1,965	6,069	4,715	4,412
<b>Balance, ending</b>	<b>\$ 40,876</b>	<b>\$ 18,603</b>	<b>\$ 40,876</b>	<b>\$ 18,603</b>

- (a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods. For the six months ended June 30, 2010, the beginning balance represents impairment losses taken before January 1, 2010. For the six months ended June 30, 2009, the beginning balance represents impairment losses taken before January 1, 2009.

On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. Based on the results of this review, management believes that the equity securities in an unrealized loss position as of June 30, 2010 are not other-than-temporarily impaired and will equal or exceed our cost basis within a reasonable period of time.

**Note 9 Loans**

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

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Commercial, financial, agricultural and other	\$ 1,031,568	\$ 1,127,320

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Real estate-construction	406,085	428,744
Real estate-residential	1,161,012	1,202,386
Real estate-commercial	1,272,972	1,320,715
Loans to individuals	562,654	557,336
<b>Total loans, net of unearned income</b>	<b>\$ 4,434,291</b>	<b>\$ 4,636,501</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 9 Loans (Continued)**

The following table identifies impaired loans, and information regarding the relationship of impaired loans to the allowance for credit losses:

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Recorded balance of impaired loans at end of period	\$ 133,154	\$ 148,556
Allowance for credit losses allocated to loans considered impaired	41,518	33,265
Impaired loans with an allocation in the allowance for credit losses	88,208	108,318
Impaired loans with no allocation in the allowance for credit losses	44,946	40,238
<b>For the six and twelve months ended:</b>		
Average recorded balance of impaired loans	\$ 156,492	\$ 83,843
Income recorded on impaired loans recognized on a cash basis	133	521

Impaired loans totaled \$133.2 million at June 30, 2010, a decrease of \$15.4 million compared to December 31, 2009. As of June 30, 2010, \$129.4 million or 97% of the non-performing loans were commercial, with \$53.1 million related to commercial and industrial loans, \$48.2 million to construction loans and \$28.1 million to commercial real estate loans. Loans originated to borrowers in Pennsylvania accounted for \$87.7 million or 66% of the non-performing total while loans outside of Pennsylvania accounted for \$45.5 million or 34% of non-performing loans. Significant impaired loans as of June 30, 2010 include the following:

A \$44.5 million balance on a line of credit to a western Pennsylvania real estate developer. The Bank is negotiating the final terms of a workout plan with the borrower and three other lenders.

A \$12.7 million participation loan secured by a condominium development in Missouri. The borrower has experienced significant cash flow problems. Ability to complete the project according to agreed upon terms is questionable.

A \$10.1 million commercial loan to a waste management company in Pennsylvania.

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

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

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\$6.4 million, the remaining portion of a \$20.8 million construction loan for a Florida condominium project. A charge-off of \$14.4 million was previously recorded on this loan.

\$5.4 million, the remaining portion of a \$39.6 million construction loan for a Florida condominium project. Continued market deterioration, and questions concerning the developer's willingness and capacity to complete the project, resulted in a decline in the estimated collateral value from an as completed to an as is raw land valuation. A \$34.2 million charge-off was recorded on this loan in the second quarter of 2010.

Loans past due in excess of 90 days and still accruing decreased \$0.1 million, or 1%, to \$15.0 million at June 30, 2010 compared to December 31, 2009. Compared to June 30, 2009, loans past due in excess of 90 days increased \$0.7 million. Loans past due in excess of 90 days and still accruing are primarily 1-4 family residential loans where the collateral value exceeds outstanding loan balances and are in the process of collection.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 10 Income Taxes**

At June 30, 2010 and December 31, 2009, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. If applicable, First Commonwealth will record interest and penalties as a component of non-interest expense. Federal and state tax years 2006 through 2009 were open for examination as of June 30, 2010.

**Note 11 Fair Values of Assets and Liabilities**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* defines fair value and the methods used for measuring fair value as well as requiring additional disclosures. Authoritative guidance issued under FASB ASC Topic 820 became effective January 1, 2009 and requires disclosures for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). All non-financial assets are included either as a separate line item on the Condensed Consolidated Statements of Financial Condition or in the *Other assets* category of the Condensed Consolidated Statements of Financial Condition. Currently, First Commonwealth does not have any non-financial liabilities to disclose.

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

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

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

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

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

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

Other Investments is comprised of FHLB stock whose estimated fair value is based on its par value. Additional information on FHLB stock is provided in Note 7, *Other investments*.



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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 11 Fair Values of Assets and Liabilities (Continued)**

Interest rate derivatives are reported at estimated fair value utilizing Level 2 inputs and are included in Other assets and Other liabilities. First Commonwealth values its interest rate swap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the U.S. Dollar yield curve includes cash LIBOR rates from overnight to three months, Eurodollar futures contracts and swap rates from three years to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 12, Derivatives.

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

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

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

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

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the evaluation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The assets included in Level 3 are select Obligations of States and Political Subdivisions, corporate securities, pooled trust preferred collateralized debt obligations, non-marketable equity investments, and certain impaired loans. The estimated fair values for the Obligations of States and Political Subdivisions included in Level 3 and corporate securities, which include our single issue trust preferred securities, were obtained from pricing sources with reasonable pricing transparency, taking into account other unobservable inputs related to the risks for each issuer. These valuations were classified as Level 3 due to the inactivity in the respective markets.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks, thrifts and bank holding companies in the U.S. There has been little or no active trading in these securities for approximately twenty-four months; therefore it was more appropriate to determine estimated fair value using a discounted cash flow analysis. Detail on our process for determining the appropriate cash flows for this analysis is provided in Note 8, Impairment of Investment Securities. The discount rate applied to the cash flows is determined by evaluating the current market yields for comparable corporate and structured credit products along with an evaluation of the risks associated with the cash flows of the comparable security. Due to the fact that there is no active market for the pooled trust preferred collateralized debt obligations, one key reference point is





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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

Note 11 Fair Values of Assets and Liabilities (Continued)

the market yield for the single issue trust preferred securities issued by banks and thrifts for which there is more activity than for the pooled securities. Adjustments are then made to reflect the credit and structural differences between these two security types.

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2010:

	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
<b>Securities Available for Sale</b>				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ 0	\$ 44,228	\$ 0	\$ 44,228
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage Backed Securities Residential	0	686,488	0	686,488
Mortgage Backed Securities Commercial	0	262	0	262
Other Government-Sponsored Enterprises	0	84,864	0	84,864
Obligations of States and Political Subdivisions	0	121,578	343	121,921
Corporate Securities	0	0	20,574	20,574
Pooled Trust Preferred Collateralized Debt Obligations	0	0	28,661	28,661
<b>Total Debt Securities</b>	<b>0</b>	<b>937,420</b>	<b>49,578</b>	<b>986,998</b>
Equity Securities	1,633	6,019	1,570	9,222
<b>Total Securities Available for Sale</b>	<b>1,633</b>	<b>943,439</b>	<b>51,148</b>	<b>996,220</b>
Other Investments	0	51,431	0	51,431
Other Assets (a)	0	17,923	0	17,923
<b>Total Assets</b>	<b>\$ 1,633</b>	<b>\$ 1,012,793</b>	<b>\$ 51,148</b>	<b>\$ 1,065,574</b>
Other Liabilities (a)	\$ 0	\$ 19,082	\$ 0	\$ 19,082
<b>Total Liabilities</b>	<b>\$ 0</b>	<b>\$ 19,082</b>	<b>\$ 0</b>	<b>\$ 19,082</b>

(a) Non-hedging interest rate derivatives

For the six months ended June 30, 2010, there were no transfers between fair value Levels 1 and 2.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

Note 11 Fair Values of Assets and Liabilities (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2009:

	Level 1	Level 2 (dollars in thousands)	Level 3	Total
<b>Securities Available for Sale</b>				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ 0	\$ 47,352	\$ 0	\$ 47,352
Obligations of U.S. Government-Sponsored Enterprises:				
Mortgage Backed Securities Residential	0	777,793	0	777,793
Mortgage Backed Securities Commercial	0	276	0	276
Other Government-Sponsored Enterprises	0	74,975	0	74,975
Obligations of States and Political Subdivisions	0	169,257	3,600	172,857
Corporate Securities	0	0	18,830	18,830
Pooled Trust Preferred Collateralized Debt Obligations	0	0	29,730	29,730
<b>Total Debt Securities</b>	<b>0</b>	<b>1,069,653</b>	<b>52,160</b>	<b>1,121,813</b>
Equity Securities	3,001	7,472	1,570	12,043
<b>Total Securities Available for Sale</b>	<b>3,001</b>	<b>1,077,125</b>	<b>53,730</b>	<b>1,133,856</b>
Other Investments	0	51,431	0	51,431
Other Assets (a)	0	10,626	0	10,626
<b>Total Assets</b>	<b>\$ 3,001</b>	<b>\$ 1,139,182</b>	<b>\$ 53,730</b>	<b>\$ 1,195,913</b>
Other Liabilities (a)	\$ 0	\$ 11,491	\$ 0	\$ 11,491
<b>Total Liabilities</b>	<b>\$ 0</b>	<b>\$ 11,491</b>	<b>\$ 0</b>	<b>\$ 11,491</b>

(a) Non-hedging interest rate derivatives

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows at June 30, 2010:

Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations (dollars in thousands)	Equity Securities	Total Estimated Fair Value
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<b>Securities Available for Sale</b>					
<b>Balance, beginning of quarter</b>	<b>\$ 3,628</b>	<b>\$ 20,967</b>	<b>\$ 28,161</b>	<b>\$ 1,570</b>	<b>\$ 54,326</b>
Realized and unrealized credit losses included in earnings	0	0	(1,964)	0	(1,964)
Total unrealized (losses) gains in other comprehensive income	(2,344)	(393)	2,640	0	(97)
Purchases, settlements, pay downs, and maturities	(941)	0	(176)	0	(1,117)
Transfers into Level 3	0	0	0	0	0
<b>Balance, end of quarter</b>	<b>\$ 343</b>	<b>\$ 20,574</b>	<b>\$ 28,661</b>	<b>\$ 1,570</b>	<b>\$ 51,148</b>

For the three months ended June 30, 2010, there were no transfers between levels of estimated fair value for available for sale securities.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 11 Fair Values of Assets and Liabilities (Continued)**

Losses of \$1.5 million included in earnings for the period are attributable to the change in realized gains (losses) relating to assets held at June 30, 2010 and are reported in the lines Net impairment losses and Net securities gains in the Condensed Consolidated Statements of Operations.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows at June 30, 2009:

	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations	Equity Securities	Total Estimated Fair Value
	(dollars in thousands)				
<b>Securities Available for Sale</b>					
<b>Balance, beginning of quarter</b>	<b>\$ 3,429</b>	<b>\$ 14,209</b>	<b>\$ 36,679</b>	<b>\$ 1,570</b>	<b>\$ 55,887</b>
Realized and unrealized credit losses included in earnings	0	0	(7,682)	0	(7,682)
Total unrealized gains (losses) in other comprehensive income	22	3,269	9,353	0	12,644
Purchases, settlements, pay downs, and maturities	0	0	(80)	0	(80)
Transfers into Level 3	0	0	0	0	0
<b>Balance, end of quarter</b>	<b>\$ 3,451</b>	<b>\$ 17,478</b>	<b>\$ 38,270</b>	<b>\$ 1,570</b>	<b>\$ 60,769</b>

For the three months ended June 30, 2009, there were no transfers between levels of estimated fair value for available for sale securities.

Losses of \$8.7 million included in earnings for the three month period ending June 30, 2009, are attributable to the change in realized gains (losses) related to assets held at June 30, 2009 and are reported in the lines Net impairment losses and Net securities gains in the Condensed Consolidated Statements of Operations.

The table below presents the balances of assets measured at fair value on a non-recurring basis at June 30, 2010:

	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(dollars in thousands)			
Impaired loans	\$ 0	\$ 77,266	\$ 30,558	\$ 107,824
Other real estate owned	0	21,250	0	21,250
<b>Total Assets</b>	<b>\$ 0</b>	<b>\$ 98,516</b>	<b>\$ 30,558</b>	<b>\$ 129,074</b>

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Impaired loans over \$0.1 million are individually reviewed to determine the amount of each loan considered to be at risk of non-collection. The estimated fair value for impaired loans that are collateral based is determined by reviewing real property appraisals, equipment valuations, accounts receivable listings and other financial information. A discounted cash flow analysis is performed to determine fair value for impaired loans when an observable market price or a current appraisal is not available.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 11 Fair Values of Assets and Liabilities (Continued)**

The estimated fair value for other real estate owned is determined by either an independent market based appraisal less costs to sell or an executed sales agreement and is classified as Level 2. Other real estate owned totaled \$21.5 million as of June 30, 2010 and primarily consisted of one property with a carrying value of \$18.4 million. This property represents a Pennsylvania based manufacturing plant with related real estate and equipment. In the second quarter of 2010, a \$2.2 million write-down was recognized on this property as an agreement for the sale of the plant and equipment was executed. Due diligence continues for this transaction with settlement expected in the third quarter of 2010. We continually review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less cost to sell, as determined by valuation techniques appropriate in the circumstances.

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. A goodwill impairment test for First Commonwealth was completed as of June 30, 2010. Based on this analysis, the estimated fair value of First Commonwealth exceeded its book value. Additional information related to this measurement is provided in Note 13, Goodwill on page 29. There were no other assets or liabilities measured at fair value on a non-recurring basis during the six months ended June 30, 2010.

FASB ASC 825-10-65, Transition Related to FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The methodologies for estimating the fair value of financial assets and financial liabilities are discussed below.

**Cash and due from banks and Interest-bearing bank deposits:** The carrying amounts for Cash and due from banks and Interest-bearing bank deposits approximate the estimated fair values of such assets.

**Securities:** Estimated fair values for securities available for sale and securities held to maturity are based on quoted market prices, if available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments. Pooled trust preferred collateralized debt obligations values 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. These valuations incorporate certain assumptions and projections in determining the estimated fair value assigned to each instrument. The carrying value of Other investments, which includes FHLB stock, is considered a reasonable estimate of fair value.

**Loans:** The fair values of all loans are estimated by discounting the estimated future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality adjusted for past due and non-performing loans which is not an exit price under FASB ASC Topic 820, Fair Value Measurements and Disclosures.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

Note 11 Fair Values of Assets and Liabilities (Continued)

**Off-balance sheet instruments:** Many of First Commonwealth's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. FASB ASC Topic 460, *Guarantees* clarified that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The carrying amount and estimated fair value for standby letters of credit was \$0.2 million at June 30, 2010. See Note 5, *Commitments and Letters of Credit*, for additional information.

**Deposit liabilities:** Management estimates that the fair value of deposits is based on a market valuation of similar deposits. The carrying value of variable rate time deposit accounts and certificates of deposit approximate their fair values at the report date. Also, fair values of fixed rate time deposits for both periods are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities.

**Short-term borrowings:** The estimated fair values of borrowings from the FHLB were estimated based on the estimated incremental borrowing rate for similar types of borrowings. The carrying amounts of other short-term borrowings such as federal funds purchased, securities sold under agreement to repurchase and treasury, tax and loan notes were used to approximate fair value due to the short-term nature of the borrowings.

**Long-term debt and subordinated debt:** The fair value of long-term debt and subordinated debt is estimated by discounting the future cash flows using First Commonwealth's estimated incremental borrowing rate for similar types of borrowing arrangements.

The following table presents carrying amounts and estimated fair values of First Commonwealth's financial instruments:

	June 30, 2010		December 31, 2009	
	Carrying Value (a)	Estimated Fair Value	Carrying Value (a)	Estimated Fair Value
(dollars in thousands)				
<b>Assets</b>				
Cash and due from banks	\$ 86,855	\$ 86,855	\$ 89,232	\$ 89,232
Interest-bearing bank deposits	1,503	1,503	327	327
Securities available for sale	996,220	996,220	1,133,856	1,133,856
Securities held to maturity	0	0	36,758	37,586
Other investments	51,431	51,431	51,431	51,431
Loans	4,434,291	4,466,273	4,636,501	4,655,167
<b>Liabilities</b>				
Deposits	\$ 4,738,638	\$ 4,825,966	\$ 4,535,785	\$ 4,619,070
Short-term borrowings	355,682	348,224	958,932	950,799
Long-term debt	155,250	158,556	168,697	172,249
Subordinated debt	105,750	68,258	105,750	70,874

(a) As reported in the Condensed Consolidated Statements of Financial Condition.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2010

**Note 12 Derivatives**

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

We have four risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are a participant. The risk participation agreements provide credit protection to the financial institution should the borrower fail to perform on its interest rate derivative contract with the financial institution. The fee received, less the estimate of the liability for the credit exposure, was recognized in earnings at the time of the transaction.

A liability of \$1.2 million was recorded for credit risk on an aggregate notional amount outstanding of \$219.7 million for interest rate derivatives and \$132.7 million of risk participation agreements at June 30, 2010. The estimated fair value of our derivatives is included in a table in Note 11 Fair Values of Assets and Liabilities in the line items Other assets and Other liabilities.

The table below presents the amount representing the change in the estimated fair value of derivative assets and derivative liabilities attributable to credit risk included in Other income on the Condensed Consolidated Statements of Operations:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>			
Non-hedging interest rate derivatives:				
(Decrease) increase in other income	\$ (263)	\$ 52	\$ (294)	\$ 128

**Note 13 Goodwill**

In accordance with ASC 805, Business Combinations and ASC 350, Intangibles Goodwill and Other, all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles are recorded at fair value. We consider our accounting policies related to goodwill and other intangible assets to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third-party sources, when available. When third-party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes.



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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 13 Goodwill (Continued)**

Goodwill is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. As of June 30, 2010 and December 31, 2009, goodwill totaled \$160.0 million.

First Commonwealth is one reporting unit and goodwill is tested in November of each year for impairment. As a result of the negative impact other-than-temporary impairment charges and credit losses in our loan portfolio have had on our earnings and the resulting decrease in our stock price, we evaluated our goodwill for impairment more frequently, beginning June 30, 2009 and each subsequent quarter end thereafter.

Goodwill is tested for impairment using a two-step process that begins with an estimation of fair value. The first step compares the estimated fair value of First Commonwealth with its carrying amount, including goodwill. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. However, if the carrying amount exceeds its estimated fair value, a second step would be performed that would compare the implied fair value to the carrying amount of goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other variables. Estimated cash flows extend five years into the future and, by their nature, are difficult to estimate over such an extended time-frame. Factors that may significantly affect the estimates include, but not limited to, balance sheet growth assumptions, credit losses in our investment and loan portfolios, competitive pressures in our market area, changes in customer base and customer product preferences, changes in revenue growth trends, cost structure, changes in discount rates, conditions in the banking sector and general economic variables.

As of June 30, 2010, we retained a third-party valuation firm to assist in our Step 1 test for potential goodwill impairment. The valuation incorporated both income and market based analyses and indicated the fair value of our goodwill was 3% below carrying amount, therefore in accordance with ASC Topic 350-20-35-8, a Step 2 analysis was undertaken.

The Step 2 test follows the purchase price allocation under the purchase method described in ASC 820-10, and fair value estimates as defined and prescribed by ASC 820-10-30. To determine the implied fair value of goodwill, the fair value of all assets other than goodwill, less the fair value of liabilities is subtracted from the fair value of the company. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the company. Key valuations used in the analysis were the mark-to-fair-value on the loan portfolio, assessment of core deposit intangibles and the mark-to-fair-value of outstanding debt and deposits.

As a result of the Step 2 analysis, it was determined that the fair value of our goodwill exceeded its carrying value by at least 31% and therefore no impairment charge was required.

As of June 30, 2010, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance and stock price could result in impairment, which could adversely affect earnings in future periods (see additional discussion of goodwill impairment under **Risk Factors** on page 59).

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

**Note 14 New Accounting Pronouncements**

FASB ASU No. 2009-16, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets* makes several significant amendments to FASB ASC Topic 860, *Transfers and Servicing* including the removal of the concept of a qualifying special-purpose entity. The new guidance also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. The new authoritative accounting guidance became effective for fiscal years beginning after November 15, 2009. First Commonwealth adopted the new guidance under FASB ASU No. 2009-16 on January 1, 2010. The adoption did not have a material impact on First Commonwealth's financial condition or results of operations.

FASB ASU No. 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. The new guidance became effective for fiscal years beginning after November 15, 2009. First Commonwealth adopted the new guidance under FASB ASU No. 2009-17 on January 1, 2010. The adoption did not have a material impact on First Commonwealth's financial condition or results of operations.

In January 2010, FASB issued FASB ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. The ASU revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. We adopted these new disclosure requirements during the current period, with the exception of the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. With respect to the portions of this ASU that were adopted during the current period, the adoption of this standard did not have a material impact on First Commonwealth's financial condition or results of operations. Management does not believe that the adoption of the remaining portion of the ASU will have a material impact on First Commonwealth's financial condition or results of operations.

In February 2010, FASB issued FASB ASU No. 2010-09, *Subsequent Event Amendments to Certain Recognition and Disclosure Requirements*. The ASU establishes separate subsequent event recognition criteria and disclosure requirements for SEC filers. Effective with the release date, the financial statements of SEC filers will no longer disclose either the date through which subsequent events were reviewed or that subsequent events were evaluated through the date financial statements were issued. The requirement to evaluate subsequent events through the date of issuance is still in place. Only the disclosure is affected. The ASU also removes the requirement to make subsequent events disclosures in financial statements revised for either a correction of an error or a retrospective application of an accounting change.

In April 2010, FASB issued ASU No. 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset* a consensus of the FASB Emerging Issues Task Force. The ASU provides guidance on the accounting for loan modifications when the loan is part of a

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

June 30, 2010

Note 14 New Accounting Pronouncements (Continued)

pool of loans accounted for as a single asset such as acquired loans that have evidence of credit deterioration upon acquisition that are accounted for under the guidance in ASC 310-30. The ASU addresses diversity in practice on whether a loan that is part of a pool of loans accounted for as a single asset should be removed from that pool upon a modification that would constitute a troubled debt restructuring or remain in the pool after modification. The ASU clarifies that modifications of loans that are accounted for within a pool under ASC 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if the expected cash flows for the pool change. The amendments in this update do not require any additional disclosures and are effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Management does not believe the adoption of the ASU will have a material impact on First Commonwealth's financial condition or results of operations.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The objective of this ASU is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables by providing additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Only disclosures are affected. Management does not believe the adoption of the ASU will 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 six months ended June 30, 2010 and 2009, and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in this Form 10-Q.

**Forward-Looking Statements**

Certain statements contained in this report that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of words such as may, will, should, could, would, plan, believe, expect, anticipate, intend, estimate or words of similar meaning. Forward-looking statements include statements relating to our anticipated future financial performance, projected growth and management's long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from developments or events, our business and growth strategies.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting us, summarizes several factors that could cause our actual results to differ materially from those anticipated or expected in these forward-looking statements:

economic conditions (both generally and in our markets) may be less favorable than expected, resulting in, among other things, a continued deterioration in credit quality, a further reduction in demand for credit and/or a further decline in real estate values;

the general decline in the real estate and lending market may continue to negatively affect our financial results;

inaccuracies in our assumptions used in calculating the appropriate amount to be placed into our allowance for loan and lease losses;

restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;

legislative and regulatory changes (including the unexpected impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations) subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;

changes in accounting standards and compliance requirements may adversely affect the business in which we are engaged;

competitive pressures among depository and other financial institutions may increase significantly;

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changes in the interest rate environment, our disposal of municipal bonds and our reduction in large credits, may reduce margins or the volumes or values of the loans we make;

competitors may have greater financial resources and develop products that enable those competitors to compete more successfully than we can;

our ability to attract and retain key personnel can be affected by the increased competition for experienced employees in the banking industry;

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition*

*and Results of Operations (Continued)*

Forward-Looking Statements (Continued)

adverse changes may occur in the bond and equity markets;

war or terrorist activities may cause further deterioration in the economy or cause instability in credit markets; and

economic, governmental or other factors may prevent the projected population, residential and commercial growth in the markets in which we operate.

Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made. You should consider all risks and uncertainties set forth in this report, as well as the risks and uncertainties disclosed in our other periodic and current reports filed with the SEC including our 2009 Annual Report on Form 10-K, our subsequent Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

Business Summary

First Commonwealth is a financial holding company that is headquartered in Indiana, Pennsylvania with assets of approximately \$6.1 billion at June 30, 2010, total loans of \$4.4 billion, total deposits of \$4.7 billion and shareholders' equity of \$654.3 million. First Commonwealth provides a diversified array of consumer and commercial banking services through our bank subsidiary, First Commonwealth Bank, which operates 115 community banking offices throughout western Pennsylvania and three loan production offices in downtown Pittsburgh, State College and Canonsburg, Pennsylvania. The largest concentration of our branch offices are located within the greater Pittsburgh metropolitan area in Allegheny, Butler, Washington and Westmoreland counties, while our remaining offices are located in smaller cities, such as Altoona, Johnstown and Indiana, Pennsylvania, and in towns and villages throughout predominantly rural counties. We also provide trust and wealth management services and offer insurance products through First Commonwealth Bank and our other operating subsidiaries. First Commonwealth's common stock trades on the NYSE under the symbol FCF.

The challenging economic environment and its effects on our commercial loan portfolio have negatively impacted our financial performance during the first six months of 2010. Out-of-market loans and large exposures to a relatively small number of commercial borrowers represent a small portion of our total assets, but have had a disproportionate effect on earnings. Management continues to focus on these issues as well as taking necessary steps to mitigate the risks of these exposures.

During the first six months of 2010, the profile of our balance sheet changed with growth in lower costing transactions and savings deposits, reduced loan volumes and a strategy of allowing the securities portfolio to mature without being replaced in order to provide funds to pay down borrowings as the risk/reward for balance sheet leveraging activities has become less attractive in the current rate environment. These changes resulted in a decline in total assets, but are expected to mitigate liquidity and interest rate risk.

Explanation of Use of Non-GAAP Financial Measure

In addition to the results of operations presented in accordance with generally accepted accounting principles ( GAAP ), First Commonwealth management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully tax-equivalent basis. We believe this non-GAAP financial measure provides information useful to investors in understanding our underlying



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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition*

*and Results of Operations (Continued)*

Explanation of Use of Non-GAAP Financial Measure (Continued)

operational performance and our business and performance trends as it facilitates comparison with the performance of others in the financial services industry. Although we believe that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a fully tax-equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Operation is reconciled to net interest income adjusted to a fully tax-equivalent basis on page 36 for the six month period ended June 30 and on page 44 for the three month period ended June 30.

Results of Operations

**Six months ended June 30, 2010 compared to six months ended June 30, 2009**

Net Income

For the six months ended June 30, 2010, First Commonwealth had net income of \$0.4 million, or \$0.00 per share, compared to a net loss of \$16.9 million or \$0.20 per share in the six months ended June 30, 2009. Net income for both periods was negatively impacted by the level of provision for loan losses and other-than-temporary impairment charges. Results for 2010 reflects improvement in both of these areas as the provision for loan losses in the first six months of 2010 was \$49.0 million, a decrease of \$7.5 million or 13% compared to \$56.5 million recorded in the comparable period of 2009. Other-than-temporary impairment charges were \$4.9 million for the six months ended June 30, 2010, a decrease of \$13.8 million or 74% compared to \$18.6 million recorded in the same period in 2009.

Other items affecting results for the six months ended June 30, 2010 include an increase of 16 basis points or \$2.8 million in the net interest margin on a fully tax-equivalent basis and a decrease of \$1.8 million in non-interest expense compared to the same period as last year. Non-interest income, excluding net security losses, was basically flat compared to 2009, despite a \$2.1 million gain from a favorable legal settlement recorded in 2009.

Net Interest Income

Net interest income, on a fully tax-equivalent basis, increased \$2.8 million, or 3%, in the first six months of 2010 as compared to the same period in 2009, despite the negative impact of a \$51.2 million increase in the level of non-performing loans. The increase in net interest income resulted from a 16 basis point increase in the net interest margin, partially offset by a decline of \$89.5 million in average interest-earning assets. Net interest margin, on a fully tax-equivalent basis, was 3.88% and 3.72% for the six month periods ended June 30, 2010 and 2009, respectively. The improved net interest margin can be attributed to a more favorable deposit mix, improved loan pricing and reduced balance sheet leveraging activities.

Comparing the first six months of 2010 with the same period of 2009, interest income, on a fully tax-equivalent basis, decreased \$10.5 million, or 7%, as the contribution from loan growth was negatively offset by a decrease in average investment securities and lower interest rates. Average loans increased \$107.6 million primarily in the commercial real estate, home equity and indirect lending categories, while average investments declined \$253.3 million as proceeds from maturing securities contributed to a decrease in average borrowings. The tax-equivalent

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Net Interest Income (Continued)

yield on interest-earning assets decreased 29 basis points from 5.33% for the six months ended June 30, 2009 to 5.04% for the same period in 2010.

Interest expense, in the first six months of 2010 as compared to the same period in 2009, decreased \$13.3 million or 28%, primarily due to a 48 basis point decline on rates paid for interest-bearing liabilities. The cost of interest-bearing liabilities was 1.34% and 1.82% at June 30, 2010 and 2009, respectively. The benefit from the lower interest rates paid was offset by growth in average deposits which increased \$300.1 million, including \$457.0 million of lower costing transaction and savings deposits, offset by a \$156.9 million decrease in time deposits.

The following table reconciles interest income in the Condensed Consolidated Statements of Operations to net interest income adjusted to a fully tax-equivalent basis:

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>	
Interest income per Condensed Consolidated Statement of Operations	\$ 139,015	\$ 148,661
Adjustment to fully tax-equivalent basis	5,437	6,276
Interest income adjusted to fully tax-equivalent basis (non-GAAP)	144,452	154,937
Interest expense	33,321	46,574
<b>Net interest income adjusted to fully tax-equivalent basis (non-GAAP)</b>	<b>\$ 111,131</b>	<b>\$ 108,363</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Net Interest Income (Continued)

The following is an analysis of the average balance sheets and net interest income on a fully tax-equivalent basis, for the six months ended June 30:

	Average Balance Sheets and Net Interest Income Analysis					
	2010			2009		
	Average Balance	Income/ Expense (a)	Yield or Rate (dollars in thousands)	Average Balance	Income/ Expense (a)	Yield or Rate
<b>Assets</b>						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 57,005	\$ 73	0.26%	\$ 790	\$ 2	0.47%
Tax-free investment securities	184,296	6,139	6.72	248,540	8,544	6.93
Taxable investment securities	942,203	20,177	4.32	1,131,230	27,037	4.82
Loans, net of unearned income (b)(c)	4,593,781	118,063	5.18	4,486,216	119,354	5.37
<b>Total interest-earning assets</b>	<b>5,777,285</b>	<b>144,452</b>	<b>5.04</b>	<b>5,866,776</b>	<b>154,937</b>	<b>5.33</b>
Non-interest-earning assets:						
Cash	76,322			74,721		
Allowance for credit losses	(103,920)			(48,187)		
Other assets	591,143			541,810		
<b>Total non-interest-earning assets</b>	<b>563,545</b>			<b>568,344</b>		
<b>Total Assets</b>	<b>\$ 6,340,830</b>			<b>\$ 6,435,120</b>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$ 615,618	\$ 416	0.14	\$ 598,399	\$ 980	0.33
Savings deposits (d)	1,758,365	6,870	0.79	1,373,299	8,294	1.22
Time deposits	1,639,283	19,361	2.38	1,796,155	28,176	3.16
Short-term borrowings	761,066	1,468	0.39	1,100,660	2,480	0.45
Long-term debt	249,778	5,206	4.20	289,133	6,644	4.63
<b>Total interest-bearing liabilities</b>	<b>5,024,110</b>	<b>33,321</b>	<b>1.34</b>	<b>5,157,646</b>	<b>46,574</b>	<b>1.82</b>
Non-interest-bearing liabilities and shareholders' equity:						
Non-interest-bearing demand deposits (d)	629,202			574,488		
Other liabilities	37,799			42,587		
Shareholders' equity	649,719			660,399		

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Total non-interest-bearing funding sources	1,316,720	1,277,474
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 6,340,830</b>	<b>\$ 6,435,120</b>
<b>Net Interest Income and Net Yield on Interest-Earning Assets</b>	<b>\$ 111,131 3.88%</b>	<b>\$ 108,363 3.72%</b>

- (a) Income on interest-earning assets has been computed on a tax-equivalent basis using the 35% federal income tax statutory rate.
- (b) Income on non-accrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
- (c) Loan income includes loan fees earned.
- (d) Average balances do not include reallocations from non-interest-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 (Continued)*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 six months ended June 30:

	<b>Analysis of Changes in Net Interest Income Six Months Ended June 30, 2010 Compared with June 30, 2009</b>		
	<b>Total Change</b>	<b>Change Due to Volume</b>	<b>Change Due to Rate (a)</b>
	(dollars in thousands)		
<b>Interest-earning assets:</b>			
Interest-bearing deposits with banks	\$ 71	\$ 131	\$ (60)
Tax-free investment securities	(2,405)	(2,208)	(197)
Taxable investment securities	(6,860)	(4,518)	(2,342)
Loans	(1,291)	2,864	(4,155)
<b>Total interest income (b)</b>	<b>(10,485)</b>	<b>(3,731)</b>	<b>(6,754)</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(564)	28	(592)
Savings deposits	(1,424)	2,325	(3,749)
Time deposits	(8,815)	(2,461)	(6,354)
Short-term borrowings	(1,012)	(765)	(247)
Long-term debt	(1,438)	(904)	(534)
<b>Total interest expense</b>	<b>(13,253)</b>	<b>(1,777)</b>	<b>(11,476)</b>
<b>Net interest income</b>	<b>\$ 2,768</b>	<b>\$ (1,954)</b>	<b>\$ 4,722</b>

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

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

Provision for Credit Losses

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

The provision for credit losses for the six months ended June 30, 2010 totaled \$49.0 million, a decrease of \$7.5 million as compared to the same period in 2009. The 2010 provision resulted primarily from an updated collateral valuation for a commercial real estate construction loan in Florida that was placed in non-performing status during the third quarter of 2009, an out-of market commercial real estate construction loan that

migrated to non-performing status during the first quarter of 2010 and deterioration in a western Pennsylvania commercial loan that was placed in non-performing status in the fourth quarter of 2009.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Provision for Credit Losses (Continued)

The table below provides a breakout of the provision for credit losses by loan category for the six months ended:

	June 30, 2010		June 30, 2009	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial and agricultural	\$ 2,315	5%	\$ 9,067	16%
Real estate-construction	45,508	93	34,078	60
Real estate-residential	1,819	4	3,375	6
Real estate-commercial	(2,273)	(5)	7,631	14
Loans to individuals	1,661	3	2,339	4
<b>Total</b>	<b>\$ 49,030</b>	<b>100%</b>	<b>\$ 56,490</b>	<b>100%</b>

For the first six months of 2010, the provision related to commercial, financial and agricultural loans was primarily due to \$2.3 million allocated for a \$44.5 million line of credit to a western Pennsylvania real estate developer. The Bank has been working with multiple financial institutions in order to develop a work-out plan. Partially offsetting this additional provision was \$2.7 million in recoveries on previously charged-off loans or reduction of established specific reserves related to two loans which provided higher than expected proceeds from bankruptcy sales.

The provision for credit losses related to real estate-construction loans was primarily due to \$24.3 million allocated for a \$39.6 million construction loan for a Florida condominium project that was placed into non-performing status in the third quarter of 2009. Continued market deterioration, and questions concerning the developer's willingness and capacity to complete the project, resulted in a change in the estimated collateral value from an as completed to an as is raw land valuation. Additionally, \$10.9 million was allocated for a \$12.7 million condominium development project in Missouri and \$3.3 million was allocated for an \$8.6 million participation construction loan for development of a Nevada resort. The Missouri condominium project was placed in non-performing status in the first quarter of 2010. Reduced market demand and cash flow issues have delayed project completion and a work-out plan is being developed. Developers for the operating Nevada resort are abandoning expansion plans due to market conditions and this loan was placed into non-performing status in the first quarter of 2010. The bank has personal recourse to the developers on all three projects, however, that recourse was not given any consideration in the reserve assessments.

Net charge-offs were \$42.6 million in the first six months of 2010 compared to \$26.2 million for the same period in 2009. Net charge-offs in 2010 included \$34.2 million for the previously mentioned Florida condominium project and \$2.1 million for a participation loan secured by real estate in Illinois. The original Illinois loan was \$5.0 million and currently has an outstanding balance of \$2.9 million. The loan was placed in non-performing status in the second quarter of 2009. Additionally, net charge-offs of \$1.0 million were recorded for a participation loan secured by real estate in Ohio. The original loan was \$6.2 million and was moved to non-performing status in the second quarter of 2009. The outstanding balance is currently \$1.3 million.

The allowance for credit losses was \$88.0 million or 1.99% of total loans outstanding at June 30, 2010 compared to \$81.6 million or 1.76% at December 31, 2009 and \$83.1 million or 1.83% at June 30, 2009. The provision is a result of management's assessment of credit quality statistics and other factors that would have an impact on probable losses in the loan portfolio and the methodology used for determination of the adequacy of the allowance for credit losses. The change in the allowance for credit losses is directionally consistent with the





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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Provision for Credit Losses (Continued)

increase in estimated losses within the loan portfolio determined by factors including certain loss events, portfolio migration analysis, historical loss experience, delinquency trends, deterioration in collateral values and volatility in the economy. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at June 30, 2010.

Below is an analysis of the consolidated allowance for credit losses for the six months ended June 30:

	2010	2009
	(dollars in thousands)	
<b>Balance, beginning of year</b>	<b>\$ 81,639</b>	<b>\$ 52,759</b>
Loans charged-off:		
Commercial, financial and agricultural	1,545	9,442
Loans to individuals	1,946	2,242
Real estate-construction	38,182	7,695
Real estate-commercial	1,059	5,487
Real estate-residential	2,540	1,807
 Total loans charged off	 45,272	 26,673
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	2,188	231
Loans to individuals	298	217
Real estate-construction	0	0
Real estate-commercial	115	9
Real estate-residential	48	16
Lease financing receivables	0	7
 Total recoveries	 2,649	 480
 Net charge-offs	 42,623	 26,193
Provision charged to expense	49,030	56,490
 <b>Balance, end of period</b>	 <b>\$ 88,046</b>	 <b>\$ 83,056</b>

Additional information on our loan portfolio is provided in the Credit Risk section of Management's Discussion and Analysis.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Non-Interest Income

The following table presents the components of non-interest income for the six months ended June 30:

	Six Months Ended June 30	
	2010	2009
	(dollars in thousands)	
<b>Non-Interest Income</b>		
Trust income	\$ 2,892	\$ 2,238
Service charges on deposit accounts	8,755	8,243
Insurance and retail brokerage commissions	3,728	3,372
Income from bank owned life insurance	2,558	2,172
Card related interchange income	5,006	4,034
Other income	5,039	7,943
<b>Subtotal</b>	<b>27,978</b>	<b>28,002</b>
Net securities gains	982	80
Net impairment losses	(4,860)	(18,627)
<b>Total non-interest income</b>	<b>\$ 24,100</b>	<b>\$ 9,455</b>

Total non-interest income for the six months ended June 30, 2010 increased \$14.7 million, or 155%, compared to the same period in 2009 primarily due to a decline in net impairment losses. Non-interest income, excluding net security gains and net impairment losses, was basically flat compared to 2009, despite a \$2.1 million gain from a favorable legal settlement recorded in 2009.

Net impairment losses of \$4.9 million for the six months ended June 30, 2010 decreased \$13.8 million compared to the six months ended June 30, 2009. Other-than-temporary impairment charges recorded in the first six months of 2010 are the result of \$4.8 million in credit related other-than-temporary impairment losses on pooled trust preferred collateralized debt obligations and \$0.1 million on a bank equity security. In the first six months of 2009, other-than-temporary impairment charges included \$16.1 million on pooled trust preferred collateralized debt obligations and \$2.6 million on bank equity securities. The decreased level of impairment charges on pooled trust preferred securities experienced in the first six months of 2010 can be attributed to a decline in the level of interest deferrals and payment defaults by the underlying banks in these investments.

Service charges on deposit accounts for the six months ended June 30, 2010 increased \$0.5 million, or 6%, as compared to the same 2009 period, due to increased overdraft and business account analysis fees. Card-related interchange income includes income on debit, credit and ATM cards that are issued to consumers and/or businesses. Card related interchange income for the six months ended June 30, 2010 increased \$1.0 million, or 24%, as compared to the same 2009 period, due to growth in usage of debit cards, increased demand deposit accounts and larger dollar transactions.

Trust income increased \$0.7 million, or 29%, for the first six months of 2010 as compared to the same period of 2009 as a result of increased market values of assets under management and implementation of a new fee schedule in the second quarter of 2010.

Insurance and retail brokerage commissions increased \$0.4 million, or 11%, for the six months ended June 30, 2010 compared to the corresponding period of 2009 mainly due to higher sales resulting from additional producers and an enhanced calling program.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Non-Interest Income (Continued)

Other income decreased \$2.9 million, or 37%, for the first six months of 2010 compared to the first six months of 2009. This decrease is primarily due to a \$2.1 million gain resulting from a legal settlement recorded in 2009, a decrease of \$0.9 million in fee income generated from new commercial loan interest rate swaps and reversal of \$0.6 million of previously accrued rent due from operators of an Other Real Estate Owned (OREO) property.

Non-Interest Expense

The following table presents the components of non-interest expense for the six months ended June 30:

	Six Months Ended June 30,	
	2010	2009
	(dollars in thousands)	
<b>Non-Interest Expense</b>		
Salaries and employee benefits	\$ 43,374	\$ 43,581
Net occupancy expense	7,432	7,528
Furniture and equipment expense	6,266	5,952
Data processing expense	2,915	2,297
Pennsylvania shares tax expense	2,514	2,643
Intangible amortization	1,233	1,486
Collection and repossession expense	1,717	2,651
FDIC insurance	3,975	6,384
Other professional fees and services	2,228	1,910
Loss on sale or write-down of assets	2,397	112
Other operating expenses	12,866	14,139
<b>Total non-interest expense</b>	<b>\$ 86,917</b>	<b>\$ 88,683</b>

Total non-interest expense for the six months ended June 30, 2010 decreased \$1.8 million compared to the same period in 2009. Compared to 2009, decreases were recognized in FDIC insurance and collection and repossession expense while increases were recognized as the result of the write-down of an OREO property and increased data processing expense.

Salaries and employee benefits decreased \$0.2 million, or 0.5%, for the six months ended June 30, 2010 compared with the same period in 2009. The decrease is primarily attributable to a reduction in staffing levels and decreased expenses related to incentive and benefit plans. Full time equivalent staff decreased to 1,605 as compared to 1,675 at June 30, 2009.

FDIC insurance premiums decreased \$2.4 million, or 38%, compared to 2009 due to the \$2.9 million special assessment recorded in 2009. Collection and repossession expense decreased \$0.9 million or 35% as a result of expenses recognized in 2009 for two properties that were transferred to OREO. Additionally, a successful expense initiative resulted in significant reductions in other operating expenses, including occupancy, advertising, travel and entertainment.

Loss on sale or write-down of assets increased \$2.3 million primarily due to a \$2.2 million write-down to fair value for an OREO property that is currently under a sales agreement.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition*

*and Results of Operations (Continued)*

Results of Operations (Continued)

Non-Interest Income (Continued)

Other operating expenses decreased \$1.3 million, or 9.0%, as a result of declines in advertising related expenses of \$0.6 million, loan processing costs of \$0.4 million and travel expenses of \$0.2 million. Offsetting these decreases are data processing expense which increased \$0.6 million or 27% and furniture and equipment expense which increased \$0.3 million, or 5%, both as a result of higher investments in technology solutions.

**Three months ended June 30, 2010 compared to three months ended June 30, 2009**

Net Income

For the three months ended June 30, 2010, First Commonwealth had net income of \$13.5 million, or \$0.15 per share, compared to a net loss of \$18.6 million or \$0.22 per share in the three month period ended June 30, 2009. The increase in net income was primarily the result of lower levels for provision for loan losses and other-than-temporary impairment charges as well as improved net interest income and a decrease in FDIC premiums.

Net Interest Income

Net interest income, on a fully tax-equivalent basis, increased \$0.7 million, or 1%, in the three month period ending June 30, 2010 as compared to the same period in 2009. The net interest income increase was a result of a 15 basis point increase in the net interest margin, partially offset by a decline in average interest-earning assets. Net interest margin, on a fully tax-equivalent basis, was 3.88% and 3.73% for the three months ended June 30, 2010 and 2009, respectively. The improved net interest margin can be attributed to a more favorable deposit mix, improved loan pricing and reduced balance sheet leveraging activities.

For the three months ended June 30, 2010 as compared to the same period in 2009, interest income, on a fully tax-equivalent basis, decreased \$5.2 million, or 7%, as the contribution from loan growth was negatively offset by a decrease in average investment securities and lower interest rates. Comparing the three months ended June 30, 2010 with the same period in 2009, average loans increased \$40.5 million primarily in the home equity and indirect lending categories, while average investments declined \$273.8 million as proceeds from maturing securities and investment sales contributed to a decrease in average borrowings. The tax-equivalent yield on interest-earning assets decreased 22 basis points from 5.25% for the three months ended June 30, 2009 to 5.03% for the same period in 2010.

Interest expense decreased \$5.9 million or 27%, for the three months ended June 30, 2010 as compared to the same period in 2009, primarily due to a 40 basis point decline on rates paid for interest-bearing liabilities. The cost of interest-bearing liabilities was 1.33% and 1.73% for the three months ended June 30, 2010 and 2009, respectively. The benefit from the lower interest rates paid was offset by growth in average deposits which increased \$304.7 million, including \$379.8 million of lower costing transaction and savings deposits and \$51.9 million in noninterest-bearing deposits, offset by a \$127.0 million decrease in time deposits.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Net Interest Income (Continued)

The following table reconciles interest income in the Condensed Consolidated Statements of Operations to net interest income adjusted to a fully tax-equivalent basis:

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>	
Interest income per Condensed Consolidated Statement of Operations	\$ 68,937	\$ 73,720
Adjustment to fully tax-equivalent basis	2,639	3,091
Interest income adjusted to fully tax-equivalent basis (non-GAAP)	71,576	76,811
Interest expense	16,341	22,232
<b>Net interest income adjusted to fully tax-equivalent basis (non-GAAP)</b>	<b>\$ 55,235</b>	<b>\$ 54,579</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Net Interest Income (Continued)

The following is an analysis of the average balance sheets and net interest income on a fully tax-equivalent basis, for the three months ended June 30:

	Average Balance Sheets and Net Interest Income Analysis					
	2010			2009		
	Average Balance	Income/ Expense (a)	Yield or Rate (dollars in thousands)	Average Balance	Income/ Expense (a)	Yield or Rate
<b>Assets</b>						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 74,996	\$ 48	0.26%	\$ 767	\$ 1	0.43%
Tax-free investment securities	170,002	2,830	6.68	238,958	4,092	6.87
Taxable investment securities	907,504	9,683	4.28	1,112,350	13,266	4.78
Loans, net of unearned income (b)(c)	4,552,312	59,015	5.20	4,511,811	59,452	5.29
<b>Total interest-earning assets</b>	<b>5,704,814</b>	<b>71,576</b>	<b>5.03</b>	<b>5,863,886</b>	<b>76,811</b>	<b>5.25</b>
Non-interest-earning assets:						
Cash	77,141			75,318		
Allowance for credit losses (d)	(123,418)			(43,039)		
Other assets	595,621			555,202		
<b>Total non-interest-earning assets</b>	<b>549,344</b>			<b>587,481</b>		
<b>Total Assets</b>	<b>\$ 6,254,158</b>			<b>\$ 6,451,367</b>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing demand deposits (e)	\$ 631,324	\$ 211	0.13%	\$ 611,384	\$ 431	0.28%
Savings deposits (e)	1,790,488	3,316	0.74	1,430,613	3,883	1.09
Time deposits	1,639,045	9,540	2.33	1,766,035	13,560	3.08
Short-term borrowings	661,068	616	0.37	1,068,183	1,133	0.43
Long-term debt	206,634	2,658	5.16	288,263	3,225	4.49
<b>Total interest-bearing liabilities</b>	<b>4,928,559</b>	<b>16,341</b>	<b>1.33</b>	<b>5,164,478</b>	<b>22,232</b>	<b>1.73</b>
Non-interest-bearing liabilities and shareholders' equity:						
Non-interest-bearing demand deposits (e)	640,105			588,246		
Other liabilities	39,797			39,823		
Shareholders' equity	645,697			658,820		



Total non-interest-bearing funding sources	1,325,599	1,286,889
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 6,254,158</b>	<b>\$ 6,451,367</b>
<b>Net Interest Income and Net Yield on Interest-Earning Assets</b>	<b>\$ 55,235 3.88%</b>	<b>\$ 54,579 3.73%</b>

- (a) Income on interest-earning assets has been computed on a tax-equivalent basis using the 35% federal income tax statutory rate.
- (b) Income on non-accrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
- (c) Loan income includes loan fees earned.
- (d) Average balance for the allowance for credit losses is affected by the timing of charge-offs, recoveries and additional provisions during the quarter.
- (e) Average balances do not include reallocations from non-interest-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 (Continued)*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 June 30:

	<b>Analysis of Changes in Net Interest Income</b>		
	<b>Three Months Ended June 30, 2010</b>		
	<b>Compared with June 30, 2009</b>		
	<b>Total Change</b>	<b>Change Due to Volume</b>	<b>Change Due to Rate (a)</b>
	<b>(dollars in thousands)</b>		
<b>Interest-earning assets:</b>			
Interest-bearing deposits with banks	\$ 47	\$ 80	\$ (33)
Tax-free investment securities	(1,262)	(1,181)	(81)
Taxable investment securities	(3,583)	(2,441)	(1,142)
Loans	(437)	534	(971)
<b>Total interest income (b)</b>	<b>(5,235)</b>	<b>(3,008)</b>	<b>(2,227)</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(220)	14	(234)
Savings deposits	(567)	978	(1,545)
Time deposits	(4,020)	(975)	(3,045)
Short-term borrowings	(517)	(436)	(81)
Long-term debt	(567)	(914)	347
<b>Total interest expense</b>	<b>(5,891)</b>	<b>(1,333)</b>	<b>(4,558)</b>
<b>Net interest income</b>	<b>\$ 656</b>	<b>\$ (1,675)</b>	<b>\$ 2,331</b>

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

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

Provision for Credit Losses

The provision for credit losses for the three months ended June 30, 2010 totaled \$4.0 million, a decrease of \$44.2 million as compared to the same period in 2009. The significant components of the 2010 provision include a \$2.7 million specific reserve for a \$3.7 million line of credit to a food processing company in Pennsylvania and an additional \$1.8 million specific reserve for a \$39.6 million condominium construction project in south Florida. Also in the second quarter of 2010, \$1.2 million in additional reserves were warranted due to deterioration in economic factors. These additional reserves were offset by the resolution of three other credits that provided \$3.6 million including \$2.7 million from two loans that provided higher than expected proceeds from bankruptcy sales and the release of \$0.9 million of previously established reserves for a

troubled loan that paid off. Also affecting the provision this quarter was a decrease in reserves related to a \$44.5 million loan to a real estate developer in western Pennsylvania. Progress in the workout structure among four different banks and a \$1.5 million principal payment by the borrower resulted in the reduction of previously established reserves by \$1.3 million to \$20.4 million.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Provision for Credit Losses (Continued)

Net charge-offs were \$34.7 million in the three months ended June 30, 2010 compared to \$6.7 million for the same period in 2009. Net charge-offs in 2010 included \$34.2 million for a Florida condominium project previously discussed.

Non-Interest Income

The following table presents the components of non-interest income for the three months ended June 30:

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>	
<b>Non-Interest Income</b>		
Trust income	\$ 1,398	\$ 1,151
Service charges on deposit accounts	4,603	4,406
Insurance and retail brokerage commissions	1,866	1,756
Income from bank owned life insurance	1,301	1,034
Card related interchange income	2,686	2,138
Other income	2,343	4,935
<b>Subtotal</b>	<b>14,197</b>	<b>15,420</b>
Net securities gains	562	56
Net impairment losses	(2,110)	(8,761)
<b>Total non-interest income</b>	<b>\$ 12,649</b>	<b>\$ 6,715</b>

Total non-interest income for the three months ended June 30, 2010 increased \$5.9 million, or 88%, compared to the same period in 2009 primarily due to a decline in net impairment losses. Non-interest income, excluding net security gains and net impairment losses, decreased \$1.2 million primarily due to the higher amounts recorded in 2009 as a result of a \$2.1 million legal settlement.

Net impairment losses of \$2.1 million for the three months ended June 30, 2010 decreased \$6.7 million compared to the three month period ended June 30, 2009. Other-than-temporary impairment charges recorded in the three month period in 2010 are the result of \$2.0 million in credit related other-than-temporary impairment losses on pooled trust preferred collateralized debt obligations and \$0.1 million on a bank equity security. The decreased level of impairment charges on pooled trust preferred securities experienced in 2010 can be attributed to a decline in the level of interest deferrals and payment defaults by the underlying banks in these investments.

Service charges on deposit accounts increased \$0.2 million, or 4%, due to increased overdraft fees. Card related interchange income increased \$0.5 million, or 26%, due to growth in usage of debit cards, increased demand deposit accounts and larger dollar transactions.

Trust income increased \$0.2 million, or 21%, for the three months ended June 30, 2010 as compared to the same period of 2009 as a result of increased market values of assets under management and implementation of a new fee schedule in the second quarter of 2010.

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Other income decreased \$2.6 million, or 53%, for the three months ended June 30, 2010 compared to the comparable period of 2009. This decrease is primarily due to the previously mentioned legal settlement.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Results of Operations (Continued)Non-Interest Expense

The following table presents the components of non-interest expense for the three months ended June 30:

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(dollars in thousands)</b>	
<b>Non-Interest Expense</b>		
Salaries and employee benefits	\$ 21,047	\$ 21,081
Net occupancy expense	3,539	3,528
Furniture and equipment expense	3,101	2,977
Data processing expense	1,478	1,165
Pennsylvania shares tax expense	1,457	1,312
Intangible amortization	576	743
Collection and repossession expense	794	1,750
FDIC insurance	2,012	4,863
Other professional fees and services	1,062	847
Loss on sale or write-down of assets	2,314	83
Other operating expenses	6,298	6,986
<b>Total non-interest expense</b>	<b>\$ 43,678</b>	<b>\$ 45,335</b>

Total non-interest expense for the three months ended June 30, 2010 decreased \$1.7 million compared to the same period in 2009. Compared to 2009, decreases were recognized in FDIC insurance and collection and repossession expense while increases were recognized as the result of the write-down of an OREO property, increased data processing expense and other professional fees and services.

FDIC insurance premiums decreased \$2.9 million, or 59%, compared to 2009 due to the \$2.9 million special assessment recorded in 2009. Collection and repossession expense decreased \$1.0 million or 55% as a result of expenses recognized in 2009 for two properties that were transferred to OREO.

A \$2.2 million increase on loss on sale or write-down of assets was the result of a write-down to current fair value for an OREO property that is currently under a sales agreement.

Offsetting these decreases are data processing expense which increased \$0.3 million or 27% and furniture and equipment expense which increased \$0.1 million, both as a result of higher investments in technology solutions.

Income Tax

The provision for income taxes increased \$20.8 million for the second quarter of 2010 and \$10.2 million for the six months ended June 30, 2010, compared to the corresponding periods in 2009. The higher provision for income taxes was primarily due to the increase in net income before tax of \$52.9 million for the second quarter of 2010 compared to 2009 and \$27.5 million for the first six months of 2010 compared to 2009. We ordinarily utilize an annual effective tax rate approach to determine the provision for income taxes, which applies an annual forecast of tax

expense as a percentage of expected full year income. Our annual effective tax rate is less than the statutory rate of 35% due to benefits that are relatively consistent regardless of the level of pretax income,

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition*

*and Results of Operations (Continued)*

Results of Operations (Continued)

Income Tax (Continued)

including tax-exempt interest, income from bank owned life insurance and low income housing tax credits. The income tax expense recognized in the second quarter of 2010 utilized the discrete period approach as permitted by ASC 740-270 Income Taxes Interim Reporting, which is the statutory tax rate applied to the pretax income (loss) minus the tax benefits generated in the three and six month periods ending June 30, 2010.

As of June 30, 2010, our deferred tax assets totaled \$67.2 million. Based on our evaluation as of June 30, 2010, we determined that it is more likely than not that all of these assets will be realized. As a result, we did not record a valuation allowance against these assets. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

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, including investments. During the first six months of 2010, proceeds from the maturity and redemption of investment securities totaled \$277.2 million and provided funds used to pay down borrowings in order to mitigate and better manage liquidity and interest rate risk. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank ( FRB ) of Cleveland and access to certificates of deposit through brokers.

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.

During the first quarter of 2010, we began participating in the Certificate of Deposit Account Registry Services ( CDARS ) program. In the second quarter of 2010, we expanded our participation in the CDARS program by participating in a reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of June 30, 2010, we obtained \$48.9 million in brokered CDARS certificates of deposits as part of an ALCO strategy to increase and diversify funding sources.

The certificates of deposits generated provided low cost funding with a weighted average rate of 0.47% and an average maturity term of 163 days as of June 30, 2010.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Liquidity (Continued)

In 2009, we increased our borrowing capacity at the FRB by establishing a Borrower-in-Custody of Collateral arrangement that enables us to pledge certain loans, not being used as collateral at the FHLB, as collateral for borrowings at the FRB. At June 30, 2010, our borrowing capacity at the FRB related to this program was \$653 million. We can also raise cash through the sale of interest-earning assets, such as loans and marketable securities, or the sale of debt or equity securities in the capital markets.

First Commonwealth Financial Corporation has an unsecured \$15.0 million line of credit with another financial institution. There are no amounts outstanding on this line as of June 30, 2010, nor has the line been utilized since its inception in May 2009. Additionally, we guarantee a \$4.6 million ESOP loan. We are currently not meeting debt covenants related to certain financial ratios for both of these loans and are working with the lenders and expect to either obtain a waiver or a modification for these covenants.

First Commonwealth's long-term liquidity source is its core deposit base and its capital position which remains at a well capitalized level. 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 six months of 2010, total deposits increased \$202.9 million, investments declined \$174.4 million and loans decreased \$202.2 million. These balance sheet changes provided funds used to decrease borrowings by \$616.7 million. The following table shows a breakdown of the components of First Commonwealth's interest-bearing deposits:

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Interest-bearing demand deposits	\$ 107,261	\$ 107,612
Savings deposits	2,360,648	2,175,953
Time deposits	1,619,479	1,610,989
<b>Total interest-bearing deposits</b>	<b>\$ 4,087,388</b>	<b>\$ 3,894,554</b>

At June 30, 2010, noninterest-bearing deposits increased by \$10.0 million and interest-bearing deposits increased \$192.8 million each as compared to December 31, 2009. Contributing to the increase in interest-bearing deposits in the first six months of 2010 was \$184.7 million growth in savings deposits and an increase in time deposits of \$8.5 million. The time deposit increase includes \$48.9 million of brokered deposits that were obtained through the CDARS program.

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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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*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 0.80 at June 30, 2010 and 0.72 at December 31, 2009. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

Gap analysis has limitations due to the static nature of the model that holds volumes and consumer behaviors constant in all economic and interest rate scenarios. Rate sensitive assets to rate sensitive liabilities repricing in one year would indicate reduced net interest income in a rising interest rate scenario, and conversely, increased net interest income in a declining interest rate scenario. Following is the gap analysis as of June 30, 2010 and December 31, 2009:

	June 30, 2010				Over 1 Year Thru 5 Years	Over 5 Years
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days		
	(dollars in thousands)					
Loans	\$ 2,107,955	\$ 228,003	\$ 319,287	\$ 2,655,245	\$ 1,595,644	\$ 183,402
Investments	271,543	76,611	151,340	499,494	339,327	208,304
Other interest-earning assets	1,503	0	0	1,503	0	0
Total interest-sensitive assets (ISA)	2,381,001	304,614	470,627	3,156,242	1,934,971	391,706
Certificates of deposit	450,535	174,043	349,819	974,397	633,507	11,495
Other deposits	2,467,989	0	0	2,467,989	0	0
Borrowings	467,560	20,112	24,328	512,000	63,720	40,292
Total interest-sensitive liabilities (ISL)	3,386,084	194,155	374,147	3,954,386	697,227	51,787
<b>Gap</b>	<b>\$ (1,005,083)</b>	<b>\$ 110,459</b>	<b>\$ 96,480</b>	<b>\$ (798,144)</b>	<b>\$ 1,237,744</b>	<b>\$ 339,919</b>
ISA/ISL	0.70	1.57	1.26	0.80	2.78	7.56

Gap/Total assets	16.59%	1.82%	1.59%	13.18%	20.43%	5.61%
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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Market Risk (Continued)

	December 31, 2009				Over 1 Year Thru 5 Years	Over 5 Years
	0-90 Days	91-180 Days	181-365 Days (dollars in thousands)	Cumulative 0-365 Days		
Loans	\$ 2,298,032	\$ 166,057	\$ 326,804	\$ 2,790,893	\$ 1,639,953	\$ 205,655
Investments	140,836	106,357	135,379	382,572	552,411	286,840
Other interest-earning assets	327	0	0	327	0	0
Total interest-sensitive assets (ISA)	2,439,195	272,414	462,183	3,173,792	2,192,364	492,495
Certificates of deposit	266,221	252,528	473,039	991,788	605,442	13,676
Other deposits	2,283,648	0	0	2,283,648	0	0
Borrowings	1,085,158	13,460	55,223	1,153,841	37,864	40,476
Total interest-sensitive liabilities (ISL)	3,635,027	265,988	528,262	4,429,277	643,306	54,152
<b>Gap</b>	<b>\$ (1,195,832)</b>	<b>\$ 6,426</b>	<b>\$ (66,079)</b>	<b>\$ (1,255,485)</b>	<b>\$ 1,549,058</b>	<b>\$ 438,343</b>
ISA/ISL	0.67	1.02	0.87	0.72	3.41	9.09
Gap/Total assets	18.55%	0.10%	1.03%	19.48%	24.03%	6.80%

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

	June 30, 2010			
	- 200	- 100	+ 100	+ 200
	(dollars in thousands)			
<b>Net interest income change (12 months):</b>	\$ (6,208)	\$ (2,182)	\$ 319	\$ 2,113
	December 31, 2009			
	- 200	- 100	+ 100	+ 200
	(dollars in thousands)			
<b>Net interest income change (12 months):</b>	\$ (4,413)	\$ 646	\$ (4,076)	\$ (3,489)

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current unprecedented low interest rate environment with federal funds trading in the 0 to 25 basis point range. Results of the 200 basis point decline in interest rate scenario is affected by the fact that many of our interest-bearing liabilities are at rates below 2% and therefore cannot decline 200 basis points, yet our interest-sensitive assets are able to decline the full 200 basis points. In the three and six month periods ended June 30, 2010, the cost of our interest-bearing liabilities averaged 1.33% and 1.34%, respectively, and the yield on our average interest-earning assets, on a fully tax equivalent basis, averaged 5.03% and 5.04%, respectively.

The ALCO is responsible for the identification and management of interest rate risk exposure. As such, the ALCO continuously evaluates strategies to manage our exposure to interest rate fluctuations.

Asset/liability models require 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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition*

*and Results of Operations (Continued)*

Market Risk(Continued)

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

Credit Risk

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

First Commonwealth's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include an assessment of individual impaired loans with a balance greater than \$0.1 million, loss experience trends, delinquency and other relevant factors. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses.

Non-performing loans include non-accrual loans and loans classified as troubled debt restructurings. Non-accrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources.

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 non-accrual status when, based on regulatory definitions, the loan is maintained on a cash basis due to the weakened financial condition of the borrower. The bank excludes from non-accrual status any loans contractually past due 90 days or more as to interest or principal payments if they are well secured and in the process of collection.

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

The allowance for credit losses was \$88.0 million at June 30, 2010 or 1.99% of loans outstanding compared to 1.76% reported at December 31, 2009 and 1.83% at June 30, 2009. The allowance for credit losses as a percentage of non-performing loans was 66% as of June 30, 2010 compared to 55% at December 31, 2009 and 101% at June 30, 2009. The amount of allowance related to non-performing loans was determined by using estimated fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific allocations of \$41.5 million related to non-performing loans covering 31% of the total non-performing balance. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at June 30, 2010.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Credit Risk (Continued)

The following table identifies amounts of loan losses and non-performing loans and securities:

	2010	June 30, 2009	December 31, 2009
	(dollars in thousands)		
<b>Non-performing Loans:</b>			
Loans on non-accrual basis	\$ 132,555	\$ 81,285	\$ 147,937
Troubled debt restructured loans	599	637	619
<b>Total non-performing loans</b>	<b>\$ 133,154</b>	<b>\$ 81,922</b>	<b>\$ 148,556</b>
Loans past due in excess of 90 days and still accruing	\$ 15,045	\$ 14,978	\$ 15,154
Other real estate owned	21,548	25,565	24,287
Loans outstanding at end of period	4,434,291	4,536,711	4,636,501
Average loans outstanding	4,593,781(a)	4,486,216(a)	4,557,227(b)
Provision for credit losses (year to date)	49,030(a)	56,490(a)	100,569(b)
Allowance for credit losses	88,046	83,056	81,639
Net charge-offs (year to date)	42,623(a)	26,193(a)	71,689(b)
Non-performing loans as a percentage of total loans	3.00%	1.81%	3.20%
Net charge-offs as a percentage of average loans outstanding (annualized)	1.87%	1.18%	1.57%
Provision for credit losses as a percentage of net charge-offs	115.03%(a)	215.67%(a)	140.29%(b)
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.99%	1.83%	1.76%
Allowance for credit losses as a percentage of non-performing loans	66.12%	101.38%	54.96%
<b>Non-performing Securities:</b>			
Non-accrual securities at market value	\$ 6,483	\$ 530	\$ 3,258

(a) For the six month period ended

(b) For the twelve month period ended

The following tables show the outstanding balances of our loan portfolio and the breakdown of net charge-offs and non-performing loans by loan type as of and for the periods presented:

	As of June 30, 2010		As of December 31, 2009	
	Outstanding Balance	Percentage of Total Portfolio	Outstanding Balance	Percentage of Total Portfolio
	(dollars in thousands)			
Commercial, financial, agricultural and other	\$ 1,031,568	23%	\$ 1,127,320	25%
Real estate-construction	406,085	9	428,744	9



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Real estate-residential	1,161,012	26	1,202,386	26
Real estate-commercial	1,272,972	29	1,320,715	28
Loans to individuals	562,654	13	557,336	12
<b>Total loans, net of unearned income</b>	<b>\$ 4,434,291</b>	<b>100%</b>	<b>\$ 4,636,501</b>	<b>100%</b>

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Credit Risk (Continued)

	For Six Months Ended June 30, 2010			As of June 30, 2010		
	Net Charge-offs	Percentage of Total Net Charge-offs	Net Charge- offs as a Percentage of Average Loans	Non-performing Loans	Percentage of Total Non-performing	Non-performing Loans as a Percentage of Total Loans
Commercial, financial, agricultural and other	\$ (643)	(1.51%)	(0.03%)	\$ 53,060	40%	1.20%
Real estate-construction	38,182	89.58	1.68	48,236	36	1.09
Real estate-residential	2,492	5.85	0.11	3,670	3	0.08
Real estate-commercial	944	2.21	0.04	28,121	21	0.63
Loans to individuals	1,648	3.87	0.07	67	0	0.00
<b>Total loans, net of unearned income</b>	<b>\$ 42,623</b>	<b>100%</b>	<b>1.87%</b>	<b>\$ 133,154</b>	<b>100%</b>	<b>3.00%</b>

As the above table illustrates, three categories of loans, real estate-construction, commercial, financial, agricultural and other and real estate-commercial, were a significant portion of the non-performing loans as of June 30, 2010.

Real estate-construction loans, which represent only 9% of total loans, were 90% of net charge-offs during the six months ended June 30, 2010 and 36% of total non-performing loans as of June 30, 2010. In the real estate-construction category, loans generated outside of Pennsylvania represented 94% of non-performing loans and 99% of the charge-offs for that category for the six months ended June 30, 2010. Non-performing real estate-construction loans totaled \$48.2 million as of June 30, 2010, of which \$12.7 million related to a condominium development project in Missouri, \$12.2 million related to two separate condominium projects in Florida and \$8.6 million related to development for a Nevada resort.

Commercial, financial, agricultural and other loans were 23% of total loans and 40% of total non-performing loans. Of the \$53.1 million non-performing loans in this category, \$44.5 million related to a line of credit issued to a western Pennsylvania real estate developer. For the six months ended June 30, 2010, there were \$0.6 million in recoveries for this loan category as the result of a \$2.0 million recovery from a previously charged-off loan as a result of higher than expected proceeds from a bankruptcy sale.

Real estate-commercial loans, which represent 29% of total loans, were 21% of total non-performing loans as of June 30, 2010. Non-performing real estate-commercial loans totaled \$28.1 million as of June 30, 2010, of which the largest portion relates to a \$10.1 million loan for a waste management company based in Pennsylvania.

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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)***Credit Risk (Continued)**

The following table for commercial, financial, agricultural and other, real estate-construction and real estate-commercial loans shows the percentage of such loans at June 30, 2010 that had been generated in and out of Pennsylvania; the percentage of net charge-offs for the six months ended June 30, 2010; and the percentage of non-performing loans as of June 30, 2010 attributable to loans in and out of Pennsylvania:

	Percentage of Loans In Category	Percentage of Net Charge-offs In Category	Percentage of Non-performing Loans In Category
<b>Commercial, financial, agricultural and other</b>			
Loans in Pennsylvania	83%	-208%	100%
Loans out of Pennsylvania	17	308	0
<b>Real estate-construction</b>			
Loans in Pennsylvania	71%	1%	6%
Loans out of Pennsylvania	29	99	94
<b>Real estate-commercial</b>			
Loans in Pennsylvania	91%	100%	100%
Loans out of Pennsylvania	9	0	0

In the real estate-construction category, loans outside of Pennsylvania represented 94% of non-performing loans in that category and 99% of the charge-offs for that category at June 30, 2010.

During 2009, First Commonwealth implemented controls and policies to restrict the size of future loan exposures; defined our lending market so that we are more focused on our loan originations within our core Pennsylvania markets; and began to focus on a strategy that would avoid concentrations in credit and provide for a balanced consumer and commercial portfolio. We believe that these actions will mitigate some of the risk in our loan portfolio.

**Capital Resources**

At June 30, 2010, shareholders' equity was \$654.3 million, an increase of \$15.4 million from December 31, 2009. The increase was primarily the result of proceeds of \$6.4 million from reissued treasury stock and additional capital stock issued, both from our dividend reinvestment plan, an \$11.2 million increase in other comprehensive income due to changes in the fair value of our available for sale investments and a decrease of \$1.0 million in unearned ESOP shares. Having a capital base which exceeds regulatory minimum levels provides First Commonwealth with a foundation to manage the current economic challenges, 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.

First Commonwealth and its banking subsidiary are well capitalized as defined by regulatory risk based capital guidelines; however, we may raise additional capital in the future as necessitated by market conditions and our financial condition, to fund growth in interest-earning assets or to expand our market area or product offerings through acquisitions or de novo expansion.

The FRB 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 4%.



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## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. *Management's Discussion and Analysis of Financial Condition**and Results of Operations (Continued)*Capital Resources (Continued)

The table below presents First Commonwealth's capital position at June 30, 2010:

	Actual		Regulatory		Well Capitalized		Excess over
	Capital	Ratio	Capital	Ratio	Capital	Ratio	Well
	Amount		Amount		Amount		Capitalized
							Capital
							Amount
<b>Total Capital to Risk Weighted Assets</b>							
First Commonwealth Financial Corporation	\$ 615,778	11.6%	\$ 423,698	8.0%	N/A	N/A	N/A
First Commonwealth Bank	596,475	11.4	418,802	8.0	\$ 523,502	10.0	\$ 72,973
<b>Tier I Capital to Risk Weighted Assets</b>							
First Commonwealth Financial Corporation	\$ 549,299	10.4%	\$ 211,849	4.0%	N/A	N/A	N/A
First Commonwealth Bank	530,751	10.1	209,401	4.0	\$ 314,101	6.0	\$ 216,650
<b>Tier I Capital to Average Assets</b>							
First Commonwealth Financial Corporation	\$ 549,299	9.0%	\$ 243,521	4.0%	N/A	N/A	N/A
First Commonwealth Bank	530,751	8.8	240,980	4.0	\$ 301,225	5.0	\$ 229,526

For an institution to qualify as well capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10%, 6% and 5%, respectively. At June 30, 2010, First Commonwealth's banking subsidiary exceeded those requirements.

In March 2010, First Commonwealth filed a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, with the SEC for issuance of up to \$300.0 million of a variety of securities including debt and capital securities, preferred and common stock and warrants. First Commonwealth may use the proceeds from the sale of any securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to, its subsidiaries, possible acquisitions and stock repurchases. As of June 30, 2010, First Commonwealth had not issued any securities pursuant to the shelf registration statement.

On July 20, 2010, First Commonwealth Financial Corporation declared a quarterly dividend of \$0.01 per share payable on August 13, 2010. This level of dividend provides for the strengthening of capital during a time of unprecedented uncertainty and market volatility.

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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 its 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, 2009 other than the following:

***The Dodd-Frank Wall Street Reform and Consumer Protection Act may affect our business activities, financial position and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies.***

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), which implements significant changes in the financial regulatory landscape and will impact all financial institutions, including First Commonwealth Financial Corporation and First Commonwealth Bank. The Act is likely to increase our regulatory compliance burden. However, it is too early for us to fully assess the full impact of the Act on our business, financial condition or results of operations in part because many of the Act's provisions require subsequent regulatory rulemaking.

Among the Act's significant regulatory changes, it creates a new financial consumer protection agency, known as the Bureau of Consumer Financial Protection (the Bureau), that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer compliance, which will increase our regulatory compliance burden and costs and may restrict the financial products and services we offer to our customers. Moreover, the Act permits states to adopt stricter consumer protection laws and state attorney generals may enforce consumer protection rules issued by the Bureau. The Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier 1 capital. These restrictions will limit our future capital strategies. The Act also increases regulation of derivatives and hedging transactions, which could limit our ability to enter into, or increase the costs associated with, interest rate and other hedging transactions.

Although certain provisions of the Act, such as direct supervision by the Bureau, will not apply to banking organizations with less than \$10 billion of assets, such as First Commonwealth Financial Corporation and First Commonwealth Bank, the changes resulting from the legislation will impact our business. These changes will require us to invest significant management attention and resources to evaluate and make necessary changes.

Effective July 6, 2010, regulatory changes in overdraft and interchange fee restrictions may reduce our non-interest income. We are currently in the process of evaluating this regulatory change, but have not fully quantified the full impact.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

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

None

**ITEM 3.** DEFAULTS UPON SENIOR SECURITIES

None

**ITEM 4.** REMOVED AND RESERVED

**ITEM 5.** OTHER INFORMATION

None



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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference to</b>
3.1	Amended and Restated Articles of Incorporation of First Commonwealth Financial Corporation	Filed herewith
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	Interactive Data File (XBRL)	Furnished 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: July 30, 2010

/s/ John J. Dolan  
John J. Dolan

President and Chief Executive Officer

DATED: July 30, 2010

/s/ Robert E. Rout  
Robert E. Rout

Executive Vice President and

Chief Financial Officer