

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

August 07, 2009

[Table of Contents](#)

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, 2009

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)

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

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 August 5, 2009 was 85,056,516.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

	PAGE	
PART I. Financial Information		
ITEM 1.	<u>Financial Statements and Supplementary Data</u>	
	Included in Part I of this report:	
	First Commonwealth Financial Corporation and Subsidiaries	
	<u>Consolidated Statements of Financial Condition</u>	3
	<u>Consolidated Statements of Income</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
ITEM 4.	<u>Controls and Procedures</u>	51
PART II. Other Information		
ITEM 1.	<u>Legal Proceedings</u>	52
ITEM 1A.	<u>Risk Factors</u>	52
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
ITEM 3.	<u>Defaults Upon Senior Securities</u>	52
ITEM 4.	<u>Submission of Matters to a Vote of Security Holders</u>	52
ITEM 5.	<u>Other Information</u>	52
ITEM 6.	<u>Exhibits</u>	53
	<u>Signatures</u>	54

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2009	December 31, 2008
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 84,346	\$ 88,277
Interest-bearing bank deposits	961	289
Securities available for sale, at fair value	1,264,685	1,349,920
Securities held to maturity, at amortized cost, (Fair value \$44,161 and \$50,558 at June 30, 2009 and December 31, 2008, respectively)	44,398	50,840
Other investments	51,431	51,431
Loans:		
Portfolio loans	4,536,771	4,418,377
Allowance for credit losses	(83,056)	(52,759)
Net loans	4,453,715	4,365,618
Premises and equipment, net	72,379	72,636
Other real estate owned	25,565	3,262
Goodwill	159,956	159,956
Amortizing intangibles, net	8,747	10,233
Other assets	282,814	273,418
Total assets	\$ 6,448,997	\$ 6,425,880
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 592,219	\$ 566,845
Interest-bearing	3,893,671	3,713,498
Total deposits	4,485,890	4,280,343
Short-term borrowings	998,259	1,139,737
Other liabilities	44,866	63,778
Subordinated debentures	105,750	105,750
Other long-term debt	180,922	183,493
Total long-term debt	286,672	289,243
Total liabilities	5,815,687	5,773,101
Shareholders Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	-0-	-0-
Common stock, \$1 par value per share, 200,000,000 shares authorized; 86,600,431 shares issued and 85,055,220 shares outstanding at June 30, 2009; 86,600,431 shares issued and 85,050,744 shares outstanding in 2008	86,600	86,600

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Additional paid-in capital	302,602	303,008
Retained earnings	287,092	309,947
Accumulated other comprehensive loss, net	(18,618)	(21,269)
Treasury stock (1,545,211 and 1,549,687 shares at June 30, 2009 and December 31, 2008, respectively, at cost)	(17,766)	(17,907)
Unearned ESOP shares	(6,600)	(7,600)
Total shareholders' equity	633,310	652,779
Total liabilities and shareholders' equity	\$ 6,448,997	\$ 6,425,880

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONSOLIDATED STATEMENTS OF INCOME

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	\$ 57,793	\$ 62,614	\$ 116,068	\$ 124,681
Interest and dividends on investments:				
Taxable interest	13,177	15,578	26,885	31,109
Interest exempt from Federal income taxes	2,660	3,347	5,554	6,942
Dividends	89	678	152	1,287
Interest on Federal funds sold	0	2	0	2
Interest on bank deposits	1	2	2	7
Total interest income	73,720	82,221	148,661	164,028
Interest Expense				
Interest on deposits	17,874	25,370	37,450	56,403
Interest on short-term borrowings	1,133	4,251	2,480	7,956
Interest on subordinated debentures	1,559	1,878	3,325	3,789
Interest on other long-term debt	1,666	3,791	3,319	7,865
Total interest on long-term debt	3,225	5,669	6,644	11,654
Total interest expense	22,232	35,290	46,574	76,013
Net Interest Income	51,488	46,931	102,087	88,015
Provision for credit losses	48,248	5,361	56,490	8,540
Net Interest Income after Provision for Credit Losses	3,240	41,570	45,597	79,475
Non-Interest Income				
Impairment losses on securities	(14,421)	(541)	(43,010)	(541)
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)	5,660	-0-	24,383	-0-
Net impairment losses	(8,761)	(541)	(18,627)	(541)
Net securities gains	56	90	80	591
Trust income	1,151	1,538	2,238	3,070
Service charges on deposit accounts	4,406	4,786	8,243	9,211
Insurance and retail brokerage commissions	1,756	1,394	3,372	2,671
Income from bank owned life insurance	1,034	1,446	2,172	2,933
Card related interchange income	2,138	1,950	4,034	3,703
Other income	4,935	2,426	7,943	4,907
Total non-interest income	6,715	13,089	9,455	26,545
Non-Interest Expense				
Salaries and employee benefits	21,081	20,428	43,581	40,758
Net occupancy expense	3,528	3,728	7,528	7,635

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Furniture and equipment expense	2,977	3,058	5,952	6,136
Advertising expense	595	401	1,108	1,029
Data processing expense	1,165	996	2,297	2,047
Pennsylvania shares tax expense	1,312	1,339	2,643	2,610
Intangible amortization	743	832	1,486	1,663
Collection and repossession expense	1,750	704	2,651	1,319
FDIC insurance	4,863	125	6,384	248
Other professional fees and services	847	934	1,910	1,684
Other operating expenses	6,474	6,340	13,143	12,612
Total non-interest expense	45,335	38,885	88,683	77,741
(Loss) Income before income taxes	(35,380)	15,774	(33,631)	28,279
Income tax (benefit) provision	(16,761)	2,861	(16,699)	4,245
Net (Loss) Income	\$ (18,619)	\$ 12,913	\$ (16,932)	\$ 24,034
Average Shares Outstanding	84,559,889	72,624,053	84,540,684	72,538,464
Average Shares Outstanding Assuming Dilution	84,594,211	72,734,711	84,601,302	72,647,190
Per Share Data:				
Basic Earnings per Share	\$ (0.22)	\$ 0.18	\$ (0.20)	\$ 0.33
Diluted Earnings per Share	\$ (0.22)	\$ 0.18	\$ (0.20)	\$ 0.33
Cash Dividends Declared per Common Share	\$ 0.00	\$ 0.17	\$ 0.12	\$ 0.34

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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
Balance at December 31, 2008	\$ 86,600	\$ 303,008	\$ 309,947	\$ (21,269)	\$ (17,907)	\$ (7,600)	\$ 652,779
Cumulative effect from adoption of FSP FAS 115-2 and FAS 124-2 (\$6.5 million, net of \$2.3 million tax)	-0-	-0-	4,223	(4,223)	-0-	-0-	-0-
Balance at January 1, 2009	86,600	303,008	314,170	(25,492)	(17,907)	(7,600)	652,779
Comprehensive income							
Net loss	-0-	-0-	(16,932)	-0-	-0-	-0-	(16,932)
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period	-0-	-0-	-0-	10,661	-0-	-0-	10,661
Noncredit related losses on securities not expected to be sold	-0-	-0-	-0-	(15,849)	-0-	-0-	(15,849)
Less: reclassification adjustment for losses on securities included in net loss	-0-	-0-	-0-	12,062	-0-	-0-	12,062
Total other comprehensive income							6,874
Total comprehensive income							(10,058)
Cash dividends declared	-0-	-0-	(10,146)	-0-	-0-	-0-	(10,146)
Net decrease in unearned ESOP shares	-0-	-0-	-0-	-0-	-0-	1,000	1,000
ESOP market value adjustment (\$316 thousand, net of \$110 thousand tax benefit)	-0-	(206)	-0-	-0-	-0-	-0-	(206)
Discount on dividend reinvestment plan purchases	-0-	(352)	-0-	-0-	-0-	-0-	(352)
Tax benefit of stock options exercised	-0-	149	-0-	-0-	-0-	-0-	149
Treasury stock reissued	-0-	1	-0-	-0-	51	-0-	52
Restricted stock	-0-	2	-0-	-0-	90	-0-	92
Balance at June 30, 2009	\$ 86,600	\$ 302,602	\$ 287,092	\$ (18,618)	\$ (17,766)	\$ (6,600)	\$ 633,310

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

(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
Balance at December 31, 2007	\$ 75,100	\$ 206,889	\$ 319,246	\$ (147)	\$ (22,700)	\$ (9,600)	\$ 568,788
Cumulative effect from adoption of EITF Issue No. 06-4 (\$1.5 million, net of \$0.5 million tax)	-0-	-0-	(984)	-0-	-0-	-0-	(984)
Balance at January 1, 2008	75,100	206,889	318,262	(147)	(22,700)	(9,600)	567,804
Comprehensive income							
Net income	-0-	-0-	24,034	-0-	-0-	-0-	24,034
Other comprehensive income, net of tax:							
Unrealized holding losses on securities arising during the period	-0-	-0-	-0-	(22,462)	-0-	-0-	(22,462)
Less: reclassification adjustment for losses on securities included in net income	-0-	-0-	-0-	5	-0-	-0-	5
Total other comprehensive income							(22,457)
Total comprehensive income							1,577
Cash dividends declared	-0-	-0-	(24,685)	-0-	-0-	-0-	(24,685)
Net decrease in unearned ESOP shares	-0-	-0-	-0-	-0-	-0-	1,000	1,000
Discount on dividend reinvestment plan purchases	-0-	(458)	-0-	-0-	-0-	-0-	(458)
Treasury stock reissued	-0-	(193)	-0-	-0-	1,577	-0-	1,384
Restricted stock	-0-	7	-0-	-0-	69	-0-	76
Balance at June 30, 2008	\$ 75,100	\$ 206,245	\$ 317,611	\$ (22,604)	\$ (21,054)	\$ (8,600)	\$ 546,698

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2009	2008
	(dollars in thousands)	
Operating Activities		
Net (loss) income	\$ (16,932)	\$ 24,034
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for credit losses	56,490	8,540
Deferred tax benefit	(18,711)	(1,274)
Depreciation and amortization	4,998	5,569
Net losses (gains) on securities and other assets	18,114	(340)
Net amortization of premiums and discounts on securities	(146)	21
Net amortization of premiums and discounts on long-term debt	(1,049)	(2,064)
Income from increase in cash surrender value of bank owned life insurance	(2,172)	(2,933)
Decrease in interest receivable	2,491	2,599
Decrease in interest payable	(1,047)	(3,767)
(Decrease) increase in income taxes payable	(2,179)	1,356
Other-net	4,137	(4,158)
Net cash provided by operating activities	43,994	27,583
Investing Activities		
Transactions in securities held to maturity:		
Proceeds from maturities and redemptions	6,597	12,525
Transactions in securities available for sale:		
Proceeds from sales	3,829	4,946
Proceeds from maturities and redemptions	199,199	225,936
Purchases	(125,762)	(230,569)
Proceeds from sales of other assets	3,736	3,839
Net (increase) decrease in interest-bearing deposits with banks	(672)	1,372
Net increase in loans	(169,774)	(426,717)
Purchases of premises and equipment	(3,987)	(4,935)
Net cash used in investing activities	(86,834)	(413,603)
Financing Activities		
Repayments of other long-term debt	(2,925)	(68,478)
Proceeds from issuance of long-term debt	2,403	33,810
Discount on dividend reinvestment plan purchases	(352)	(458)
Dividends paid	(24,604)	(24,660)
Net (decrease) increase in Federal funds purchased	(139,700)	34,850
Net (decrease) increase in other short-term borrowings	(1,778)	445,175
Net increase (decrease) in deposits	205,664	(34,534)
Proceeds from sale of treasury stock	52	1,384
Stock option tax benefit	149	-0-

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Net cash provided by financing activities	38,909	387,089
Net (decrease) increase in cash and cash equivalents	(3,931)	1,069
Cash and cash equivalents at January 1	88,277	100,791
Cash and cash equivalents at June 30	\$ 84,346	\$ 101,860

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 1 Basis of Presentation

The consolidated financial statements include the accounts of First Commonwealth Financial Corporation and its wholly owned subsidiaries (First Commonwealth). All material intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made in the consolidated financial statements for 2008 to conform to the classifications presented for 2009. The Consolidated Statements of Financial Condition presented on page 3 reflects amounts for the period ended December 31, 2008 which have been reclassified from the presentation provided in First Commonwealth 's 2008 Annual Report on Form 10-K. This reclassification relates to \$13.0 million in borrowings which were presented as short-term in the Annual Report on Form 10-K and are now presented as long-term borrowings in the 2009 financial statements. The amount reclassified represents debt with an original maturity of greater than one year, but remaining maturity of less than one year.

The accounting and reporting policies of First Commonwealth conform with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ from those estimates. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair 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, 2009 and 2008 are not necessarily indicative of the results that may be expected for the full year or any other interim period. These interim financial statements should be read in conjunction with First Commonwealth 's 2008 Annual Report on Form 10-K which is available on First Commonwealth 's website at <http://www.fcbanking.com>. First Commonwealth 's website also provides additional information of interest to investors and clients, including other regulatory filings made to the Securities and Exchange Commission, press releases, historical stock prices, dividend declarations, corporate governance information, policies, and documents as well as information about products and services offered by First Commonwealth.

First Commonwealth has evaluated subsequent events through August 7, 2009, the date these financial statements were issued.

Note 2 Supplemental Comprehensive Income Disclosures

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

	June 30, 2009			June 30, 2008		
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains (losses) on securities:						
Unrealized holding gains (losses) arising during the period	\$ 16,401	\$ (5,740)	\$ 10,661	\$ (34,557)	\$ 12,095	\$ (22,462)
Noncredit related losses on securities not expected to be sold	(24,383)	8,534	(15,849)	-0-	-0-	-0-
Less: reclassification adjustment for losses (gains) realized in net income	18,557	(6,495)	12,062	8	(3)	5

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Net unrealized gains (losses)	10,575	(3,701)	6,874	(34,549)	12,092	(22,457)
Other comprehensive income (loss)	\$ 10,575	\$ (3,701)	\$ 6,874	\$ (34,549)	\$ 12,092	\$ (22,457)

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 3 Supplemental Cash Flow Disclosures

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

	For the Six Months Ended June 30, 2009 2008 (dollars in thousands)	
Cash paid during the current year for:		
Interest	\$ 48,425	\$ 77,492
Income taxes	\$ 3,900	\$ 4,400
Noncash investing and financing activities:		
ESOP loan reductions	\$ 1,000	\$ 1,000
Loans transferred to other real estate owned and repossessed assets	\$ 25,834	\$ 4,861
Investments purchased, not settled	\$ -0-	\$ (15,052)
Net unrealized gains (losses) on securities available for sale	\$ 10,575	\$ (34,548)
<u>Correction of Prior Period Error in Cash Flow</u>		

For reporting periods prior to March 31, 2009, we have identified an error in the line classification on our Consolidated Statements of Cash Flows. In these periods, we presented the change in Payable due to investments purchased/not settled in the Operating Activities section of the Consolidated Statements of Cash Flows, instead of in the Investing Activities section.

The error has been corrected in the Consolidated Statements of Cash Flows presented on page 7 by removing the transaction from the Operating Activities section and including it in the Investing Activities section. Also, unsettled transactions related to the purchase or sale of investment securities are now presented as part of the non-cash transaction disclosure table presented above.

We have not amended or restated any prior period filings as this error does not impact our reported net income, net cash flows, or shareholders equity.

The affect of the correction of this error on Net cash (used in) provided by operating activities and Net cash (used in) provided by investing activities for prior reporting periods is reflected below.

	For the Six Months Ended June 30, 2008	For Years Ended December 31, 2008 2007 2006 (dollars in thousands)		
Consolidated Statements of Cash Flow				
Net Cash (used in) provided by operating activities:				
Original	\$ 12,531	\$ 52,320	\$ 69,746	\$ 62,215
Revised	\$ 27,583	\$ 68,782	\$ 61,953	\$ 53,545

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Net Cash (used in) provided by investing activities:				
Original	\$ (398,551)	\$ (594,190)	\$ 156,524	\$ 308,136
Revised	\$ (413,603)	\$ (610,652)	\$ 164,317	\$ 316,806

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 3 Supplemental Cash Flow Disclosures (Continued)

The affect of this correction on the Supplemental Disclosure for prior periods is as follows:

	For the Six Months Ended June 30, 2008	For Years Ended December 31, 2008 2007 2006		
		(dollars in thousands)		
Supplemental Cash Flow Disclosure				
Investments purchased, not settled:				
Original	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revised	\$ (15,052)	\$ -0-	\$ 16,462	\$ 8,670

Note 4 Variable Interest Entities

In December 2003, the Financial Accounting Standards Board (FASB) issued FIN 46(R), Consolidation of Variable Interest Entities. As defined by FIN 46(R), a Variable Interest Entity (VIE) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under FIN 46(R), an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

As part of its community reinvestment initiatives, First Commonwealth invests in qualified affordable housing projects as a limited partner. First Commonwealth receives Federal affordable housing tax credits and rehabilitation tax credits for these limited partnership investments. First Commonwealth s carrying value, or its maximum potential exposure, to these partnerships is \$1.5 million as of June 30, 2009, which consists of eleven limited partnership investments. Management evaluates the limited partnerships annually for impairment and recorded a \$1.2 million impairment charge in the fourth quarter of 2008. Based on FIN 46(R), First Commonwealth has determined that these investments will not be consolidated but continue to be accounted for under the equity method whereby First Commonwealth s portion of the partnerships results are recognized as earned.

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 June 30, 2009 (dollars in thousands):

Commitments to extend credit	\$ 1,677,384
Financial standby letters of credit	\$ 80,054

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Performance standby letters of credit	\$	81,288
Commercial letters of credit	\$	29

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 5 Commitments and Letters of Credit (Continued)

The current notional amounts outstanding above include financial standby letters of credit of \$3.6 million, performance standby letters of credit of \$999 thousand, and commercial letters of credit of \$9 thousand issued during the first six months of 2009. A liability of \$96 thousand has been recorded which represents the fair value of letters of credit issued in 2008 and 2009. See Note 9, Fair Value of Assets and Liabilities, for additional information.

Note 6 Investment Securities

Below is an analysis of the amortized cost and fair values of securities available for sale (dollars in thousands):

	June 30, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	\$ 49,857	\$ 2,573	\$ -0-	\$ 52,430	\$ 54,500	\$ 1,714	\$ (7)	\$ 56,207
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage Backed Securities Residential	854,122	27,802	(613)	881,311	902,965	22,289	(657)	924,597
Other Government Sponsored Enterprises	75,000	701	-0-	75,701	75,000	1,906	-0-	76,906
Obligations of States and Political Subdivisions	191,782	2,216	(6,394)	187,604	215,965	2,098	(5,922)	212,141
Corporate Securities	23,952	-0-	(6,474)	17,478	23,970	179	(4,368)	19,781
Pooled Trust Preferred Collateralized Debt Obligations	87,224	-0-	(48,954)	38,270	97,136	371	(50,427)	47,080
Total Debt Securities	1,281,937	33,292	(62,435)	1,252,794	1,369,536	28,557	(61,381)	1,336,712
Equities	11,912	130	(151)	11,891	13,627	100	(519)	13,208
Total Securities Available for Sale	\$ 1,293,849	\$ 33,422	\$ (62,586)	\$ 1,264,685	\$ 1,383,163	\$ 28,657	\$ (61,900)	\$ 1,349,920

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 6 Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities available for sale at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Due within 1 year	\$ 310	\$ 312
Due after 1 but within 5 years	84,962	85,998
Due after 5 but within 10 years	37,078	38,165
Due after 10 years	255,608	194,578
	377,958	319,053
Mortgage Backed Securities Residential (a)	903,979	933,741
Total Debt Securities	\$ 1,281,937	\$ 1,252,794

- (a) Mortgage Backed Securities Residential include an amortized cost of \$50 million and a fair value of \$52 million for Obligations of U.S. Government agencies issued by the Government National Mortgage Association. Obligations of U.S. Government-sponsored enterprises includes obligations issued by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation which had an amortized cost of \$854 million and a fair value of \$881 million.

For the six months ended June 30, 2009, net securities gains included \$67 thousand in gains and no losses for securities available for sale.

Below is an analysis of the amortized cost and fair values of debt securities held to maturity (dollars in thousands):

	June 30, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	\$ 31	\$ 3	\$ -0-	\$ 34	\$ 45	\$ 3	\$ -0-	\$ 48
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage Backed Securities Residential	119	8	-0-	127	164	8	-0-	172
Obligations of States and Political Subdivisions	44,248	628	(876)	44,000	50,631	588	(881)	50,338
Total Securities Held to Maturity	\$ 44,398	\$ 639	\$ (876)	\$ 44,161	\$ 50,840	\$ 599	\$ (881)	\$ 50,558

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 6 Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities held to maturity at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost (dollars in thousands)	Fair Value
Due within 1 year	\$ 1,113	\$ 1,129
Due after 1 but within 5 years	10,879	11,270
Due after 5 but within 10 years	6,164	6,358
Due after 10 years	26,092	25,243
	44,248	44,000
Mortgage Backed Securities Residential (a)	150	161
Total Debt Securities	\$ 44,398	\$ 44,161

- (a) Mortgage Backed Securities Residential include an amortized cost of \$31 thousand and a fair value of \$34 thousand for Obligations of U.S. Government Agencies issued by the Government National Mortgage Association. Obligations of U.S. Government-sponsored enterprises includes obligations issued by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation which had an amortized cost of \$119 thousand and a fair value of \$127 thousand.

For the six months ended June 30, 2009, net securities gains included \$13 thousand in gains and no losses for debt securities held to maturity.

Note 7 Impairment of Investment Securities

As permitted, during the first quarter of 2009, First Commonwealth early adopted FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairment which requires that credit related other-than-temporary impairment on debt securities be recognized in earnings while noncredit related other-than-temporary impairment on debt securities not expected to be sold be recognized in other comprehensive income (OCI). As a result, in the second quarter of 2009 we recorded \$8.8 million in other-than-temporary impairment charges. These charges include \$7.7 million in credit related other-than-temporary impairment on eight trust preferred collateralized debt obligations and \$1.1 million recorded on equity securities related to two Pennsylvania-based financial institutions. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities. Additionally, \$5.7 million in noncredit related other-than-temporary impairment was recorded in OCI on our trust preferred collateralized debt obligations.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

FSP FAS 115-2 and FAS 124-2 was adopted as of March 31, 2009. The following table shows the effect on the first quarter 2009 of adopting this (dollars in thousands, except share data):

	Prior to Adoption	After Adoption	Effect of Adoption
Impairment losses on securities	\$ (28,589)	\$ (9,866)	\$ 18,723
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)	\$ -0-	\$ 18,723	\$ 18,723
Net impairment losses	\$ (28,589)	\$ (9,866)	\$ 18,723
Net (loss) income	\$ (10,483)	\$ 1,687	\$ 12,170
Basic Earnings Per Share	\$ (0.12)	\$ 0.02	\$ 0.14
Diluted Earnings Per Share	\$ (0.12)	\$ 0.02	\$ 0.14
Accumulated other comprehensive loss	\$ (10,593)	\$ (22,763)	\$ (12,170)

In accordance with the new guidance, the noncredit 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 the year. In 2008, \$13.0 million in other-than-temporary impairment charges were recognized, of which \$6.5 million related to noncredit related impairment on debt securities. Therefore, the cumulative effect adjustment to retained earnings totaled \$6.5 million, or \$4.2 million net of tax.

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.

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes in real estate values, interest deferrals, and whether the federal government provides assistance to financial institutions. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of EITF 99-20, and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows determine that it is probable an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FSP FAS 115-2 and FAS 124-2. There is a risk that this quarterly review could result in First Commonwealth recording other-than-temporary impairment charges in the future. See Note 9 Fair Values of Assets and Liabilities for additional information.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

The following table presents the gross unrealized losses and fair values at June 30, 2009 for both available for sale and held to maturity securities by investment category and time frame for which the loss has been outstanding (dollars in thousands):

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 73,487	\$ (613)	\$ 27	\$ -0-	\$ 73,514	\$ (613)
Corporate Securities	(3,246)	195	20,474	(6,669)	17,228	(6,474)
Pooled Trust Preferred Collateralized Debt Obligations	11,805	(6,714)	26,465	(42,240)	38,270	(48,954)
Obligations of States and Political Subdivisions	110,939	(4,767)	26,830	(2,503)	137,769	(7,270)
Total Debt Securities	192,985	(11,899)	73,796	(51,412)	266,781	(63,311)
Equities	1,107	(151)	-0-	-0-	1,107	(151)
Total Securities	\$ 194,092	\$ (12,050)	\$ 73,796	\$ (51,412)	\$ 267,888	\$ (63,462)

At June 30 2009, 12.4% of the total unrealized losses were comprised of fixed income securities issued by U.S. Government agencies, U.S. Government-sponsored enterprises and investment grade municipalities. Corporate fixed income comprised 10.2% of the total unrealized losses, while pooled trust preferred collateralized debt obligations accounted for 77.2% and equity securities accounted for the remaining 0.2%. The unrealized losses in the equity securities category consist of five issues, neither of which has been in a continuous unrealized loss position for more than twelve months.

Corporate securities had a total unrealized loss of \$6.5 million as of June 30, 2009. Included in this category are single issue trust preferred securities and corporate debentures issued primarily by money center and large regional banks. As of June 30, 2009, our single issue trust preferred securities had an amortized cost of \$22.8 million and an estimated fair value of \$16.4 million, while our corporate debentures had a book value of \$1.2 million and an estimated fair value of \$1.1 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.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

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

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government Agencies:						
Mortgage Backed Securities Residential	\$ 679	\$ (6)	\$ -0-	\$ -0-	\$ 679	\$ (6)
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	20,065	(46)	64,487	(611)	84,552	(657)
Corporate Securities	(1,277)	(2,233)	8,082	(2,506)	6,805	(4,739)
Pooled Trust Preferred Collateralized Debt Obligations	15,209	(1,457)	31,871	(48,599)	47,080	(50,056)
Obligations of States and Political Subdivisions	146,050	(6,702)	1,719	(102)	147,769	(6,804)
Total Debt Securities	180,726	(10,444)	106,159	(51,818)	286,885	(62,262)
Equities	1,691	(519)	-0-	-0-	1,691	(519)
Total Securities	\$ 182,417	\$ (10,963)	\$ 106,159	\$ (51,818)	\$ 288,576	\$ (62,781)

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

The following table provides additional information related to our corporate securities as of June 30, 2009:

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

(dollars in thousands)

Name of Issuer	Name of Issuer's Parent Company	Book Value	Fair Value	Unrealized Loss	Current Moody's / Fitch Issuer Ratings
BP Bank America Inst	Bank of America Corp	\$ 1,028	\$ 803	\$ (225)	Baa3/BB-
BP MBNA Capital	Bank of America Corp	1,031	859	(172)	Baa3/BB-
NB Capital Trust II	Bank of America Corp	3,083	2,452	(631)	Baa3/BB-
North Fork Cap Trust	Capital One Financial Corp	1,266	542	(724)	Baa1/BBB+
Reliance Cap Trust	Capital One Financial Corp	488	300	(188)	NA
FCB/SC Cap Trust	First Citizens Bancorporation	493	300	(193)	NA
Fifth Third Cap	Fifth Third Bancorp	250	196	(54)	Baa2/BBB
Signal Capital Trust I	FirstMerit Corp	1,297	788	(509)	NA
PBI Capital Trust	Fulton Financial Corp	247	150	(97)	NA
KeyCorp Capital II	KeyCorp	1,848	1,578	(270)	Baa2/BBB
Union State Capital Trust I	KeyCorp	1,036	700	(336)	NA
BSB Cap Trust	M&T Bank Corp	463	227	(236)	NA
First Empire Cap MTB	M&T Bank Corp	4,896	3,086	(1,810)	Baa1/BBB+
PNC Capital Trust	PNC Financial Services Group	453	401	(52)	Baa1/A
Valley Cap Trust	Rabobank Nederland NV	250	250	-0-	NA
Centura Cap Trust	Royal Bank of Canada	1,138	839	(299)	A2/AA-
Susquehanna Cap	Susquehanna Bancshares	500	406	(94)	Ba2/NA
First Union Instit Cap I	Wells Fargo Co.	3,000	2,534	(466)	A3/AA-
Total Single Issue Trust Preferred Securities		22,767	16,411	(6,356)	
Fulton Financial Corp	Fulton Financial Corp	443	350	(93)	Baa2/BBB+
Provident Bk MD	M&T Bank Corp	245	223	(22)	NA/BBB+
PNC Bank NA	PNC Financial Services Group	497	494	(3)	A2/A
Total Corporate Debentures		1,185	1,067	(118)	

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Total Corporate Securities	\$ 23,952	\$ 17,478	\$ (6,474)
----------------------------	-----------	-----------	------------

As of June 30, 2009, the book value of our pooled trust preferred collateralized debt obligations totaled \$87.2 million with an estimated fair value of \$38.3 million, which includes securities comprised of 376 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainder are mezzanine tranches. During the first quarter of 2009, all of the pooled issues were downgraded by Moody's Investor Services. Two of the pooled issues, representing \$12.4 million of the \$87.2 million book value, remain above investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7.3% to 35.4% 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, 2009, after taking into account management's best estimates of future interest deferrals and defaults, the excess subordination in our tranches ranged from 0.0% to 109.01% of the current performing collateral.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

The following table provides additional information related to our pooled trust preferred collateralized debt obligations as of June 30, 2009:

Pooled Trust Preferred Collateralized Debt Obligations

(dollars in thousands)

Deal	Class	Book Value	Fair Value	Unrealized Loss	Moody s/ Fitch Ratings	Current Number of Banks	Actual Deferrals and Defaults as a % of Current Collateral	Excess Subordination as a % of Current Performing Collateral
Pre TSL I	Senior	\$ 3,706	\$ 3,038	\$ (668)	A1/A	32	15.86%	109.01%
Pre TSL IV	Mezzanine	1,830	717	(1,113)	Ca/B	6	27.07%	25.43%
Pre TSL V	Mezzanine	459	167	(292)	Ba3/A	4	65.87%	0.00%
Pre TSL VI	Mezzanine	345	161	(184)	Caa1/CCC	5	61.35%	0.00%
Pre TSL VII	Mezzanine	6,083	2,062	(4,021)	Ca/CC	20	57.26%	0.00%
Pre TSL VIII	Mezzanine	2,338	530	(1,808)	Ca/CC	36	42.84%	0.00%
Pre TSL IX	Mezzanine	2,693	979	(1,714)	Ca/CC	49	22.33%	0.00%
Pre TSL X	Mezzanine	3,510	1,266	(2,244)	Ca/CC	58	24.72%	0.00%
Pre TSL XII	Mezzanine	9,345	3,454	(5,891)	Ca/CC	79	18.46%	0.00%
Pre TSL XIII	Mezzanine	17,500	7,056	(10,444)	Ca/CC	65	15.10%	4.62%
Pre TSL XIV	Mezzanine	16,000	6,231	(9,769)	Ca/CC	64	10.68%	16.14%
MMCap I	Senior	8,730	6,705	(2,025)	A3/A	29	9.15%	108.78%
MMCap I	Mezzanine	1,061	510	(551)	Ca/CCC	29	9.15%	11.65%
MM Comm IX	Mezzanine	13,624	5,394	(8,230)	Caa3/CC	34	27.35%	0.00%
Total		\$ 87,224	\$ 38,270	\$ (48,954)				

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 temporary impairment on these securities.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. In the second quarter of 2009, \$7.7 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 noncredit 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 noncredit related portion is recognized in other comprehensive income and represents the difference between the fair value of the security and the amount of credit related impairment. A discounted cash flow analysis provides the best estimate of credit related other-than-temporary impairment for these securities. Additional information related to this analysis follows:

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of EITF 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets,

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

and FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20, 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, 2009. 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 determine 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 376 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. In all cases, a 10% projected recovery rate is applied to projected defaults. The probability of default is updated quarterly. As of June 30, 2009, default probabilities for performing collateral ranged from .35% to 95%.

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

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

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.

Based upon the analysis performed by management as of June 30, 2009, it is probable that Pre TSL V, Pre TSL VI, Pre TSL VII, Pre TSL VIII, Pre TSL IX, Pre TSL X, Pre TSL XII and MM Comm IX will experience principal and interest shortfalls. The \$7.7 million in credit related other-than-temporary impairment charges recognized in the second quarter of 2009 are primarily the result of additional interest deferrals within these pools. Our analysis as of June 30, 2009 indicates it is probable that we will collect all contractual principal and interest payments on our 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, 2009	For the Six Months Ended June 30, 2009
	(dollars in thousands)	
Balance, beginning (a)	\$ 10,921	\$ 2,516
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	1,613	11,675
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	6,069	4,412
Balance, ending	\$ 18,603	\$ 18,603

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

Additionally in the second quarter of 2009, other-than-temporary impairment charges of \$1.1 million were recorded on equity securities related to two Pennsylvania-based financial institutions. Management evaluates equity securities for other-than-temporary impairment by reviewing 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 and factoring in the level of decline in the fair value of these equity securities, management could not substantiate that their market value would equal or exceed our cost basis within a reasonable period of time.

In connection with a review of our Annual Report on Form 10-K for the year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, the staff of the Securities and Exchange Commission (SEC) recently advised us that they believe that certain events that occurred subsequent to December 31, 2008 but prior to the filing of our Annual Report should have been considered in our impairment analysis for trust preferred collateralized debt obligations as of December 31, 2008 and asked us to provide an analysis to the SEC if we believe the impact of those events is not material to our financial statements for the periods ending December 31, 2008 and March 31, 2009. Specifically, the events relate to a cease and desist order issued on February 17, 2009 against a company with securities in two of our trust preferred pools and an announcement on February 20, 2009 by a company with securities in six of our pools that it would defer interest

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 7 Impairment of Investment Securities (Continued)

payments under its trust preferred securities beginning in April 2009 unless it received approval to participate in the Treasury Department's Capital Purchase Program in which event it expected to pay all the deferred amounts out of its then existing funds. We are currently evaluating the SEC's comment and the appropriateness and impact of considering these events in our impairment analysis as of December 31, 2008.

Note 8 Income Taxes

At January 1, 2009 and June 30, 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 2005 through 2008 were open for examination as of June 30, 2009.

Note 9 Fair Values of Assets and Liabilities

Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 and Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements became effective January 1, 2008. SFAS 159 permits entities to irrevocably elect to measure select financial instruments and certain other items at fair value. The unrealized gains and losses are required to be included in earnings each reporting period for the items that fair value measurement is elected. First Commonwealth elected not to measure any existing financial instruments at fair value under SFAS 159; however, in the future we may elect to adopt SFAS 159 for select financial instruments.

SFAS 157 defines fair value and the methods used for measuring fair value as well as requiring additional disclosures; however, it does not expand the use of fair value measurements. FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 became effective January 1, 2009 and requires disclosures for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). All nonfinancial assets are included either as a separate line item on the Consolidated Statements of Financial Condition or in the Other assets category of the Consolidated Statements of Financial Condition. Currently, First Commonwealth does not have any nonfinancial liabilities to disclose. FASB also issued Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active in October 2008, which clarified the application of SFAS 157 in a market that is not active. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly was issued in April 2009 and provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157 when the volume and level of activity for assets or liabilities have significantly decreased. As permitted, we early adopted FSP FAS 157-4 on March 31, 2009.

In accordance with SFAS 157, 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. 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.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 9 Fair Values of Assets and Liabilities (Continued)

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 U.S. Government securities, municipal securities, Federal Home Loan Bank (FHLB) stock, interest rate derivatives that include interest rate swaps and risk participation agreements, and other real estate owned.

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 municipal securities, corporate securities, pooled trust preferred collateralized debt obligations, and impaired loans.

In accordance with SFAS 157, fair values for investment securities were based on quoted market prices, if available, and were classified as Level 1. If quoted market prices were not available, the valuation for investment utilized pricing models that varied based on asset class and included available trade, bid and other observable market information. Securities priced using this information are classified as Level 2.

Fair values for 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 markets.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks and bank holding companies in the U.S. There has been little or no active trading in these securities for approximately twelve months; therefore it was more appropriate to determine fair value using a discounted cash flow analysis. Detail on our process for determining the appropriate cash flows for this analysis is provided in Note 7 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 trust preferred collateralized debt obligations, one key reference point is the market yield for the single issue trust preferred securities issued by banks and thrifts for which there is an active and liquid market. Adjustments are then made to reflect the credit and structural differences between these two security types.

Interest rate derivatives are reported at fair value utilizing Level 2 inputs and are included in Other Assets and Other Liabilities. First Commonwealth values its interest rate swap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the US 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 11 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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 9 Fair Values of Assets and Liabilities (Continued)

things, in determining if any fair value adjustments related to credit risk are required. We review our counterparty exposure quarterly, and, when necessary, appropriate adjustments are made to reflect the exposure. 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 table below presents the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2009:

	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Securities Available for Sale				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ -0-	\$ 52,430	\$ -0-	\$ 52,430
Obligations of U.S. Government Sponsored Enterprises:				
Mortgage Backed Securities Residential	-0-	881,311	-0-	881,311
Other Government-Sponsored Enterprises	-0-	75,701	-0-	75,701
Obligations of States and Political Subdivisions	-0-	184,153	3,451	187,604
Corporate Securities	-0-	-0-	17,478	17,478
Pooled Trust Preferred Collateralized Debt Obligations	-0-	-0-	38,270	38,270
Total Debt Securities	-0-	1,193,595	59,199	1,252,794
Equities	4,229	6,092	1,570	11,891
Total Securities Available for Sale	4,229	1,199,687	60,769	1,264,685
Other Investments	-0-	51,431	-0-	51,431
Other Assets (a)	-0-	11,350	-0-	11,350
Total Assets	\$ 4,229	\$ 1,262,468	\$ 60,769	\$ 1,327,466
Other Liabilities (a)	\$ -0-	\$ 11,427	\$ -0-	\$ 11,427
Total Liabilities	\$ -0-	\$ 11,427	\$ -0-	\$ 11,427

(a) Non-hedging interest rate derivatives

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 9 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, 2008:

	Level 1	Level 2 (dollars in thousands)	Level 3	Total
Securities Available for Sale				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ -0-	\$ 56,207	\$ -0-	\$ 56,207
Obligations of U.S. Government Sponsored Enterprises:				
Mortgage Backed Securities Residential	-0-	924,598	-0-	924,598
Other Government Sponsored Enterprises	-0-	76,906	-0-	76,906
Obligations of States and Political Subdivisions	-0-	212,141	-0-	212,141
Corporate Securities	-0-	-0-	19,780	19,780
Pooled Trust Preferred Collateralized Debt Obligations	-0-	-0-	47,080	47,080
Total Debt Securities	-0-	1,269,852	66,860	1,336,712
Equities	6,370	5,268	1,570	13,208
Total Securities Available for Sale	6,370	1,275,120	68,430	1,349,920
Other Investments	-0-	51,431	-0-	51,431
Other Assets (a)	-0-	19,552	-0-	19,552
Total Assets	\$ 6,370	\$ 1,346,103	\$ 68,430	\$ 1,420,903
Other Liabilities (a)	\$ -0-	\$ 19,757	\$ -0-	\$ 19,757
Total Liabilities	\$ -0-	\$ 19,757	\$ -0-	\$ 19,757

(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, 2009:

Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations (dollars in thousands)	Equities	Total Fair Value
---	-------------------------	--	----------	---------------------

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Securities Available for Sale					
Balance, beginning of quarter	\$ 3,429	\$ 14,209	\$ 36,679	\$ 1,570	\$ 55,887
Realized and unrealized credit losses included in earnings	-0-	-0-	(7,682)	-0-	(7,682)
Total gains (losses) realized/unrealized 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-
Balance, end of quarter	\$ 3,451	\$ 17,478	\$ 38,270	\$ 1,570	\$ 60,769

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 9 Fair Values of Assets and Liabilities (Continued)

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

Losses of \$8.8 million included in earnings for the period are attributable to the change in realized losses relating to assets held at June 30, 2009 and are reported in the line Net impairment losses on securities in the Consolidated Statements of Income.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows at June 30, 2008:

	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations (dollars in thousands)	Equities	Total Fair Value
Securities Available for Sale					
Balance, beginning of quarter	\$ -0-	\$ 971	\$ -0-	\$ 1,570	\$ 2,541
Realized and unrealized credit losses included in earnings	-0-	-0-	-0-	-0-	-0-
Total gains (losses) realized/unrealized in other comprehensive income	-0-	(75)	-0-	-0-	(75)
Purchases, settlements, pay downs, and maturities	-0-	(506)	-0-	-0-	(506)
Transfers into Level 3	3,629	9,382	82,301	-0-	95,312
Balance, end of quarter	\$ 3,629	\$ 9,772	\$ 82,301	\$ 1,570	\$ 97,272

At June 30, 2008, the securities transferred from Level 2 to Level 3 were municipal securities. The primary reason for the transfer into Level 3 was the inactivity in the market for these securities which resulted in a lack of observable market activity or comparable trades that could be used to establish a benchmark for valuation.

Losses of \$0.5 million included in earnings for the period are attributable to the change in realized losses relating to assets held at June 30, 2008 and are reported in the line Net impairment (losses) in the Consolidated Statements of Income.

The table below presents the balances of assets measured at fair value on a nonrecurring basis at June 30, 2009:

	Level 1	Level 2	Level 3	Total Fair Value
			(dollars in thousands)	
Impaired loans	\$ -0-	\$ -0-	\$ 50,998	\$ 50,998
Other real estate owned	-0-	25,244	-0-	25,244

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Total Assets	\$ -0-	\$ 25,244	\$ 50,998	\$ 76,242
--------------	--------	-----------	-----------	-----------

Impaired loans over \$100,000 are individually reviewed to determine the amount of each loan considered to be at risk of noncollection. The impaired loans are collateral based and the fair value is determined by reviewing real property appraisals, equipment valuations, accounts receivable listings and other financial information.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 9 Fair Values of Assets and Liabilities (Continued)

Fair value for other real estate owned is determined by an independent market based appraisal less costs to sell and is classified as level 2.

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a nonrecurring 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. There were no other assets or liabilities measured at fair value on a nonrecurring basis during the six months ended June 30, 2009.

SFAS 107, Disclosures about Fair Value of Financial Instruments, and FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, require 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 that are measured at fair value on a recurring or non-recurring basis are as discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Cash and short-term instruments: The carrying amounts for cash and short-term instruments approximate the estimated fair values of such assets.

Securities Available for Sale: Refer to discussion related to securities available for sale as previously discussed in this note.

Securities Held to Maturity: Fair values for securities held to maturity are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying value of nonmarketable equity securities, such as Federal Home Loan Bank stock, is considered a reasonable estimate of fair value.

Loans: The estimated fair values of all loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality adjusted for past due and nonperforming loans.

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. Management has determined that due to the uncertainties of cash flows and difficulty in predicting the timing of cash flows for loan commitments, fair values were not estimated for either period. FIN 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (as amended), 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 \$96 thousand at June 30, 2009. 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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 9 Fair Values of Assets and Liabilities (Continued)

expected maturities.

Short-term borrowings: The estimated fair values of borrowings from the Federal Home Loan Bank 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.

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 at June 30, 2009:

	Carrying Amount	Estimated Fair Value
	(dollars in thousands)	
Financial assets		
Cash and due from banks	\$ 84,346	\$ 84,346
Interest-bearing bank deposits	961	961
Securities available for sale	1,264,685	1,264,685
Securities held to maturity	44,398	44,161
Loans	4,536,771	4,558,528
Allowance for loan loss	83,056	-0-
Financial liabilities		
Deposits	\$ 4,485,890	\$ 4,384,819
Short-term borrowings	998,259	991,756
Long-term debt	180,922	184,065
Subordinated debt	105,750	166,240

Note 10 Other Investments

As a member of the Federal Home Loan Bank of Pittsburgh (FHLB), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2009 and December 31, 2008, our FHLB stock totaled \$51.4 million and is included in Other Investments on the Consolidated Statements of Financial Condition.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as 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.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 10 Other Investments (Continued)

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

its operating performance;

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

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

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

its liquidity and funding position.

After evaluating all of these considerations, First Commonwealth concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the six months ended June 30, 2009. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 11 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 market value of the swaps offset each other, except for the credit risk of the counterparties, which was calculated by taking into consideration the risk rating, probability of default and loss given default for all counterparties.

We have three 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 \$76 thousand was recorded for credit risk on an aggregate notional amount outstanding of \$208.1 million for interest rate derivatives and \$67.0 million for risk participation agreements at June 30, 2009. The fair value of our derivatives is included in a table in Note 9 Fair Values of Assets and Liabilities in the line items Other Assets and Other Liabilities.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 11 Derivatives (Continued)

The table below presents the amount representing the change in value of derivative assets and derivative liabilities attributable to credit risk included in the Consolidated Statements of Income:

	For the Three Months Ended June 30, 2009		For the Six Months Ended June 30, 2009	
	2009	2008	2009	2008
	(dollars in thousands)		(dollars in thousands)	
Non-hedging interest rate derivatives:				
Other non-interest expense	\$ 52	\$ -0-	\$ 128	\$ -0-

Note 12 New Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. SFAS No. 168 established the FASB Accounting Standards Codification (the Codification) to become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (the SEC) and its staff. All guidance contained in the Codification carries an equal level of authority. The provisions of SFAS No. 168 are effective for interim and annual periods ending after September 15, 2009. As the Codification is neither expected nor intended to change GAAP, the adoption of SFAS 168 will have no impact on First Commonwealth's financial condition or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167 (SFAS 167), Amendments to FASB Interpretation No. 46(R). SFAS No. 167 requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity (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. This statement is effective for fiscal years beginning after November 15, 2009. Management is currently evaluating the impact of adopting this standard.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166 (SFAS 166), Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. SFAS No. 166 makes several significant amendments to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, including the removal of the concept of a qualifying special-purpose entity from SFAS No. 140. SFAS No. 166 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. This statement is effective for fiscal years beginning after November 15, 2009. Management does not expect the adoption of SFAS 166 to have a material impact on its financial condition or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 165 (SFAS 165), Subsequent Events. This standard establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 was effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact First Commonwealth's financial condition or results of operations.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

June 30, 2009

Note 12 New Accounting Pronouncements (Continued)

In April 2009, FASB issued FASB Staff Position (FSP) No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157, *Fair Value Measurements*, when the volume and level of activity for assets or liabilities have significantly decreased. FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. We early adopted FSP FAS 157-4 on March 31, 2009, and the adoption did not have a material impact on our financial condition or results of operations.

In April 2009, FASB issued FASB Staff Position (FSP) No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 115-2 and FAS 124-2 amended Other-Than-Temporary Impairment guidance in U.S. GAAP to improve the presentation and disclosure of other-than-temporary impairment on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity about the credit and noncredit components of impaired debt securities that are not expected to be sold. The FSP also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. We early adopted FSP FAS 115-2 and FAS 124-2 on March 31, 2009. In accordance with this new accounting guidance, the noncredit related portion of other-than-temporary impairment losses previously recognized in earnings during 2008 was reclassified as a cumulative effect adjustment that increased retained earnings and decreased accumulated OCI. Of the \$13.0 million in other-than-temporary impairment charges recognized in 2008, \$6.5 million related to noncredit related impairment, and accordingly, has been recorded, net of tax, as a cumulative effect adjustment in the Consolidated Statements of Changes in Shareholders' Equity as of January 1, 2009. Refer to Note 7 *Impairment of Investment Securities* for further discussion.

In April 2009, FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. Effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, FSP FAS 107-1 and APB 28-1 amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 only relates to disclosures and therefore will not have an impact on First Commonwealth's financial condition or results of operations. We adopted FSP FAS 107-1 and APB 28-1 on June 30, 2009.

In January 2009, FASB issued FASB Staff Position (FSP) No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. Effective for interim and annual reporting periods ending after December 15, 2008, FSP EITF 99-20-1 amended EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve a more consistent evaluation of whether there is other-than-temporary impairment for the debt securities under the scope of EITF 99-20 and the debt securities not within the scope of EITF 99-20 that would fall under the scope of SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. The adoption of FSP EITF 99-20-1 did not have a material impact on First Commonwealth's financial condition or results of operations.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

Note 12 New Accounting Pronouncements (Continued)

In June 2008, FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Effective for interim and annual reporting periods ending after December 15, 2008, FSP EITF 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of basic earnings per share using the two-class method prescribed by SFAS 128, *Earnings Per Share*. The adoption of FSP EITF 03-6-1 did not have a material impact on First Commonwealth's financial condition or results of operations.

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

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

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

June 30, 2009

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, 2009 and 2008, and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in this Form 10-Q.

Forward-Looking Statements

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

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

Deepened or prolonged weakness in economic and business conditions, nationally and in our market areas, which could increase credit-related losses and expenses and/or limit growth.

Further declines in the market value of investment securities that are considered to be other-than-temporary, which would negatively impact our earnings and capital levels.

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

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

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

Reduced wholesale funding capacity or higher borrowing costs due to capital constraints at the Federal Home Loan Bank, which would reduce our liquidity and negatively impact earnings and net interest margin.

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

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

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

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

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

and Results of Operations

Results of Operation

Summary of Results

First Commonwealth has experienced the following developments during the second quarter of 2009 compared to the second quarter of 2008.

Net interest income increased 9.7%.

Net interest margin, on a tax equivalent basis, improved 19 basis points.

Total loans increased 10.3% and commercial loans increased 15.4%.

Average demand and savings deposits increased 15.2%.

Nonaccrual loans increased 59.7% primarily due to deterioration during the second quarter of 2009 in commercial real estate construction loans as a result of economic conditions.

Provision for credit losses increased \$42.9 million.

Impairment losses of \$8.8 million were recorded on collateralized debt obligations and bank equity securities.

FDIC insurance costs increased \$4.7 million driven by premium increases and the special assessment of \$2.9 million.

First Commonwealth Bank relocated its Latrobe office to a more visible location.

We recorded a net loss for the second quarter 2009 of \$(18.6) million or \$(0.22) per diluted share, as compared to net income of \$12.9 million or \$0.18 per diluted share for the same period in 2008. The decrease in net income was primarily the result of a \$42.9 million (\$27.9 million after tax) increase in the provision for credit losses as well as an increase of \$8.2 million (\$5.3 million after tax) in other-than-temporary impairment charges. The higher provision was primarily related to deterioration in our out of state commercial real estate construction credits. The other-than-temporary impairment charges were primarily related to the credit deterioration of the company's pooled trust preferred collateralized debt obligations. FDIC insurance costs rose \$4.7 million driven by premium increases and the special assessment of \$2.9 million. Although we have experienced increased provision for loan loss and other-than-temporary impairment charges, we achieved growth in loans and deposits and remain well capitalized with significant liquidity.

Average diluted shares in the second quarter 2009 were 16.3% greater than the comparable quarter in 2008 primarily due to the issuance of 11.5 million shares of common stock in connection with the capital raising transaction completed on November 5, 2008. Second quarter 2009 annualized return on average equity and average assets was (11.34)% and (1.16)%, respectively, compared to 9.03% and 0.84% for the prior year period.

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

We recorded a net loss for the six months ended June 30, 2009 of \$(16.9) million, or \$(0.20) per diluted share compared to net income of \$24.0 million, or \$0.33 per diluted share in the same period last year. The decrease was due to the \$48.0 million (\$31.2 million after tax) increase in the provision for credit losses and an \$18.1 million (\$11.8 million after tax) increase in other-than-temporary impairment losses related to our trust preferred collateralized debt obligations and two equity securities. FDIC insurance costs rose \$6.1 million mainly from premium increases and the special assessment of \$2.9 million. Year-to-date June 30, 2009 annualized return on average equity and average assets was (5.17)% and (0.53)%, respectively, compared to 8.38% and 0.79% for the same period last year.

Table of Contents

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)Summary of Results (Continued)

The following table illustrates the impact on diluted earnings per share of changes in certain components of net income for the three and six months ending June 30, 2009 compared to the prior periods and after adjusting for the affect of the 11.5 million additional shares issued in November 2008. This adjustment reduced shares used in calculating the change for each component by 11.5 million in order to be comparable to the baseline from the prior year period.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Net income per diluted share, prior year period	\$ 0.18	\$ 0.33
Increase (decrease) from changes in:		
Net interest income	0.06	0.00
Provision for credit losses	(0.59)	(0.55)
Net impairment losses on securities	(0.11)	(0.21)
Net losses on securities transactions	0.00	(0.01)
Trust income	0.00	(0.02)
Service charges on deposit accounts	0.00	(0.03)
Insurance commissions	0.01	0.00
Income from bank owned life insurance	0.00	(0.01)
Other operating income	0.03	0.03
Salaries and employee benefits	0.00	0.04
Occupancy and equipment costs	0.00	0.03
Collection and repossession expenses	(0.01)	(0.01)
FDIC insurance	(0.06)	(0.07)
Other operating expenses	0.00	0.02
Tax benefit	0.27	0.26
Net loss per diluted share	\$ (0.22)	\$ (0.20)

Net Interest Income

Net interest income increased \$4.6 million, or 9.7%, in the second quarter of 2009 from the second quarter of 2008 as a result of both growth in earning assets and a decline in the cost of interest-bearing liabilities. Interest income decreased \$8.5 million, or 10.3%, as the contribution from loan growth was negatively offset by lower interest rates. Interest expense declined \$13.1 million, or 37.0%, as a 109 basis point decline on rates paid for interest-bearing liabilities more than offset additional interest expense resulting from a \$100.6 million, or 2.0%, increase in average interest-bearing liabilities.

Average interest-earning assets increased \$180.4 million, or 3.2%, in the second quarter of 2009 compared to the second quarter of 2008 primarily due to a \$463.7 million, or 11.5%, increase in average loans. This loan growth was partially funded by investment run-off and short-term borrowings. Average investment securities decreased \$283.4 million, or 17.3%, while average short-term borrowings increased \$293.0 million. We refinanced \$190.0 million of longer term Federal Home Loan Bank advances in the fourth quarter of 2008. These advances were due to mature in the first seven months of 2009 and were replaced with lower costing overnight borrowings.

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

In the second quarter of 2009, average interest-bearing liabilities increased \$100.6 million when compared to the second quarter of 2008. Management continued to supplement deposit growth with wholesale borrowings due to

Table of Contents

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 significant spread between wholesale borrowing costs and rates paid on time deposits. In the second quarter of 2009 compared to the second quarter of 2008, average time deposits decreased \$261.3 million, or 12.9%, which were offset with increases in lower costing transaction and savings deposits. Average noninterest-bearing demand deposits increased \$46.5 million, or 8.6%, while average interest-bearing demand and savings deposits increased \$301.4 million, or 17.3%.

The net interest margin on a tax equivalent basis for the second quarter 2009 increased 19 basis points to 3.73% compared with 3.54% in the corresponding period last year. The increase in net interest margin can be attributed to increased loan volume and declines in the cost of interest-bearing liabilities exceeding the declines in yields on total interest-earning assets. The decrease in the cost of interest-bearing liabilities can be attributed to lower interest rates, combined with a shift in the mix of our liabilities to low cost deposits and short-term borrowings from time deposits and long-term debt. First Commonwealth uses simulation models to help manage exposure to changes in interest rates. A discussion of the effects of changing interest rates is included in the Market Risk section of this discussion.

Net interest income increased \$14.1 million, or 16.0%, for the six months ended June 30, 2009 from the corresponding period in 2008 as a result of both growth in earning assets and a decline in the cost of interest-bearing liabilities. Interest income decreased \$15.4 million, or 9.4%, as the contribution from loan growth was negatively offset by lower interest rates. Interest expense declined \$29.4 million, or 38.7%, as a 126 basis point decline on rates paid for interest-bearing liabilities more than offset additional interest expense resulting from a \$191.0 million, or 3.8%, increase in average interest-bearing liabilities.

Average interest-earning assets increased \$286.3 million, or 5.1%, in the first six months of 2009 compared to the comparable period in 2008 driven primarily by a \$544.4 million, or 13.8%, increase in average loans. This loan growth was partially funded by investment run-off and short-term borrowings. Average investment securities decreased \$258.3 million, or 15.8%, and a portion of the increase of \$466.2 million in average short-term borrowings was also due to refinancing \$190.0 million of longer term Federal Home Loan Bank advances in the fourth quarter of 2008. These advances were due to mature in the first seven months of 2009 and were replaced with lower costing overnight borrowings.

In the six months ended June 30, 2009, average interest-bearing liabilities increased \$191.0 million when compared to the corresponding period in 2008. Management continued to supplement deposit growth with wholesale borrowings due to the significant spread between wholesale borrowing costs and rates paid on time deposits. In the first six months of 2009 compared to the first six months of 2008, average time deposits decreased \$299.7 million, or 14.3%, which were offset with increases in lower costing transaction and savings deposits. Average noninterest-bearing demand deposits increased \$48.5 million, or 9.2%, and average interest-bearing demand and savings deposits increased \$270.3 million, or 15.9%.

The net interest margin on a tax equivalent basis for the six months ended June 30, 2009 increased 31 basis points to 3.72% compared with 3.41% in the corresponding period last year. The increase in net interest margin can be attributed to increased loan volume and declines in the cost of interest-bearing liabilities exceeding the declines in yields on total interest-earning assets. The decrease in the cost of interest-bearing liabilities is the result of lower interest rates, combined with a shift in the mix of our liabilities to low cost deposits and short-term borrowings from time deposits and long-term debt.

Table of Contents

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 for the three months ended June 30:

Average Balance Sheets and Net Interest Income Analysis
2009 2008

	(dollars in thousands)					
	Average Balance	Income/ Expense	Yield or Rate (a)	Average Balance	Income/ Expense	Yield or Rate (a)
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 767	\$ 1	0.43%	\$ 349	\$ 2	2.05%
Tax-free investment securities	238,958	2,660	6.87	300,631	3,347	6.89
Taxable investment securities	1,112,350	13,266	4.78	1,334,118	16,256	4.90
Federal funds sold	-0-	-0-	0.00	286	2	2.53
Loans, net of unearned income (b)(c)	4,511,811	57,793	5.29	4,048,141	62,614	6.35
Total interest-earning assets	5,863,886	73,720	5.25	5,683,525	82,221	6.04
Noninterest-earning assets:						
Cash	75,318			74,860		
Allowance for credit losses	(43,039)			(42,011)		
Other assets	555,202			498,205		
Total noninterest-earning assets	587,481			531,054		
Total Assets	\$ 6,451,367			\$ 6,214,579		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$ 611,384	\$ 431	0.28%	\$ 609,977	\$ 1,241	0.82%
Savings deposits (d)	1,430,613	3,883	1.09	1,130,583	4,149	1.48
Time deposits	1,766,035	13,560	3.08	2,027,373	19,980	3.96
Short-term borrowings	1,068,183	1,133	0.43	775,183	4,251	2.21
Long-term debt	288,263	3,225	4.49	520,733	5,669	4.38
Total interest-bearing liabilities	5,164,478	22,232	1.73	5,063,849	35,290	2.80
Noninterest-bearing liabilities and capital:						
Noninterest-bearing demand deposits (d)	588,246			541,752		
Other liabilities	39,823			34,017		
Shareholders' equity	658,820			574,961		

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Total noninterest-bearing funding sources	1,286,889		1,150,730	
Total Liabilities and Shareholders' Equity	\$ 6,451,367		\$ 6,214,579	
Net Interest Income and Net Yield on Interest-Earning Assets	\$ 51,488	3.73%	\$ 46,931	3.54%

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

Table of Contents

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 for the six months ended June 30:

	Average Balance Sheets and Net Interest Income Analysis					
	2009			2008		
	(dollars in thousands)					
	Average Balance	Income/Expense	Yield or Rate (a)	Average Balance	Income/Expense	Yield or Rate (a)
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 790	\$ 2	0.47%	\$ 448	\$ 7	3.06%
Tax-free investment securities	248,540	5,554	6.93	310,411	6,942	6.92
Taxable investment securities	1,131,230	27,037	4.82	1,327,618	32,396	4.91
Federal funds sold	0	-0-	0.00	164	2	2.57
Loans, net of unearned income (b)(c)	4,486,216	116,068	5.37	3,941,864	124,681	6.51
Total interest-earning assets	5,866,776	148,661	5.33	5,580,505	164,028	6.15
Noninterest-earning assets:						
Cash	74,721			74,360		
Allowance for credit losses	(48,187)			(42,185)		
Other assets	541,810			492,876		
Total noninterest-earning assets	568,344			525,051		
Total Assets	\$ 6,435,120			\$ 6,105,556		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$ 598,399	\$ 980	0.33	\$ 591,549	\$ 2,988	1.02%
Savings deposits (d)	1,373,299	8,294	1.22	1,109,822	9,497	1.72
Time deposits	1,796,155	28,176	3.16	2,095,883	43,918	4.21
Short-term borrowings	1,100,660	2,480	0.45	634,479	7,956	2.52
Long-term debt	289,133	6,644	4.63	534,874	11,654	4.38
Total interest-bearing liabilities	5,157,646	46,574	1.82	4,966,607	76,013	3.08
Noninterest-bearing liabilities and capital:						
Noninterest-bearing demand deposits (d)	574,488			525,951		
Other liabilities	42,587			36,037		
Shareholders' equity	660,399			576,961		

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Total noninterest-bearing funding sources	1,277,474		1,138,949	
Total Liabilities and Shareholders' Equity	\$ 6,435,120		\$ 6,105,556	
Net Interest Income and Net Yield on Interest-Earning Assets	\$ 102,087	3.72%	\$ 88,015	3.41%

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

Table of Contents

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 and six months ended June 30:

	Analysis of Changes in Net Interest Income (dollars in thousands)					
	Three Months Ended June 30, 2009 Compared with June 30, 2008			Six Months Ended June 30, 2009 Compared with June 30, 2008		
	Total Change	Change Due to Volume	Change Due to Rate (a)	Total Change	Change Due to Volume	Change Due to Rate (a)
Interest-earning assets:						
Interest-bearing deposits with banks	\$ (1)	\$ 2	\$ (3)	\$ (5)	\$ 5	\$ (10)
Tax-free investment securities	(687)	(1,057)	370	(1,388)	(2,129)	741
Taxable investment securities	(2,990)	(2,702)	(288)	(5,359)	(4,795)	(564)
Federal funds sold	(2)	(2)	-0-	(2)	(2)	-0-
Loans	(4,821)	7,321	(12,142)	(8,613)	17,622	(26,235)
Total interest income	(8,501)	3,562	(12,063)	(15,367)	10,701	(26,068)
Interest-bearing liabilities:						
Interest-bearing demand deposits	(810)	3	(813)	(2,008)	35	(2,043)
Savings deposits	(266)	1,101	(1,367)	(1,203)	2,255	(3,458)
Time deposits	(6,420)	(2,576)	(3,844)	(15,742)	(6,281)	(9,461)
Short-term borrowings	(3,118)	1,610	(4,728)	(5,476)	5,846	(11,322)
Long-term debt	(2,444)	(2,531)	87	(5,010)	(5,354)	344
Total interest expense	(13,058)	(2,393)	(10,665)	(29,439)	(3,499)	(25,940)
Net interest income	\$ 4,557	\$ 5,955	\$ (1,398)	\$ 14,072	\$ 14,200	\$ (128)

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

Provision for Credit Losses

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

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

The provision for credit losses for the second quarter of 2009 increased \$42.9 million compared to the second quarter of 2008 as a result of increased allocations for new nonperforming loans, loan growth and trends in losses.

The significant increase primarily reflects deterioration in our out of state commercial real estate and commercial construction portfolios. In the second quarter of 2009, \$36.1 million or 74.8% of the provision for credit losses related to out of market loans.

Table of Contents

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)

Significant provisions for loan losses were recorded in the second quarter on the following credits;

A \$38.7 million land loan in Florida which was originated in the first quarter of 2008. Due to weakness in the Florida market and the borrowers failure to fund interest reserves the credit was classified as substandard in June 2009. In the second quarter of 2009, a \$9.7 million specific reserve has been allocated to the allowance for this credit.

A \$20.8 million real estate construction loan in Florida for condominiums. This loan was originated in August 2006 and was placed on nonaccrual in June 2009. The project was 100% pre-sold with a 30% down payment on each unit and is approximately 60% complete. In May 2009, the bank group received notice that closings on the first phase of the project may not be completed in time to provide cash flow needed to finish the next two phases of the project. A Shared National Credit review in June 2009 graded the loan 100% doubtful and nonaccrual. In the second quarter of 2009, a \$10.8 million specific reserve has been allocated to the allowance for this credit.

A \$9.2 million commercial and industrial loan in Maryland to a business that develops and manages retirement centers. This loan was originated in July 2007 and was placed on nonaccrual in June 2009. Underlying collateral for the loan is a pledge on all deposit accounts and financial assets of the borrower. Weakened real estate markets created cash flow and financial issues for the borrower. In April 2009, a Forbearance Agreement was signed adjusting covenants. The last indication of value, a liquidation analysis, was obtained in June 2009. In the second quarter of 2009, a \$6.7 million specific reserve has been allocated to the allowance.

A \$6.2 million real estate construction loan in Ohio for senior housing/independent living facilities. This loan was originated in June 2008 and placed on nonaccrual in June 2009. The project is approximately 80% complete. Declines in real estate prices have caused financial issues for the borrower. In April 2009, the bank group suspended construction advances on the project due to a combination of insufficient absorption, a default on related debt and the guarantor's inability to provide financial support. The last appraisal was completed in April 2009. A Shared National Credit review in June 2009 classified 54% of the loan as substandard and 46% loss. In the second quarter of 2009, a \$3.6 million specific reserve was allocated to the allowance of which \$2.9 million was charged off.

A \$5.0 million commercial construction loan in Illinois for a hotel and indoor water park. This loan was originated in July 2007 and placed on nonaccrual in June 2009. Current economic climate and affect on recreation industry has resulted in poor financial performance and inability to service debt payments. In June 2009, a Forbearance Agreement was entered into providing one year of interest only payments. A Shared National Credit review in June 2009 downgraded the loan to doubtful. In the second quarter, a \$2.0 million specific reserve has been allocated to the allowance for this credit.

A \$5.0 million commercial construction loan in Utah for a commercial residential mixed use project. This loan was originated in April 2007 and placed on nonaccrual in June 2008. In April 2009, the bank learned that construction on the project had stopped due to cash flow problems. The last appraisal was completed in September 2008. A Shared National Credit review in June 2009 downgraded the loan to loss. A \$5.0 million specific reserve has been allocated for this credit, of which \$2.6 million was provided in the second quarter of 2009.

This loan has not been charged off because there is an unresolved court case that may result in some recovery.

Table of Contents

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 credit losses were \$6.7 million in the second quarter of 2009 compared to \$2.5 million in the second quarter of 2008. Two commercial credit relationships accounted for \$3.4 million, or 50.6%, of the net credit losses in the second quarter of 2009. Both of the commercial credit relationships were out of state participation loans. One was a commercial and industrial loan and the other was a construction loan secured by real estate.

The allowance for credit losses was \$83.1 million at June 30, 2009, which represents a ratio of 1.85% of average loans outstanding compared to 1.13% reported at June 30, 2008. 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, 2009.

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

	2009	2008
	(dollars in thousands)	
Balance, beginning of year	\$ 52,759	\$ 42,396
Loans charged off:		
Commercial, financial and agricultural	9,442	1,777
Loans to individuals	2,242	1,918
Real estate-construction	7,695	68
Real estate-commercial	5,487	2,106
Real estate-residential	1,807	1,272
Total loans charged off	26,673	7,141
Recoveries of loans previously charged off:		
Commercial, financial and agricultural	231	267
Loans to individuals	217	299
Real estate-construction	-0-	-0-
Real estate-commercial	9	136
Real estate-residential	16	8
Lease financing receivables	7	-0-
Total recoveries	480	710
Net credit losses	26,193	6,431
Provision charged to expense	56,490	8,540
Balance, end of period	\$ 83,056	\$ 44,505

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

Table of Contents

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 three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands)			
Non-Interest Income				
Trust income	\$ 1,151	\$ 1,538	\$ 2,238	\$ 3,070
Service charges on deposit accounts	4,406	4,786	8,243	9,211
Insurance and retail brokerage commissions	1,756	1,394	3,372	2,671
Income from bank owned life insurance	1,034	1,446	2,172	2,933
Card related interchange income	2,138	1,950	4,034	3,703
Other income	4,935	2,426	7,943	4,907
Subtotal	15,420	13,540	28,002	26,495
Net securities gains	56	90	80	591
Net impairment losses	(8,761)	(541)	(18,627)	(541)
Total non-interest income	\$ 6,715	\$ 13,089	\$ 9,455	\$ 26,545

Total non-interest income for the three and six month periods ended June 30, 2009 decreased \$6.4 million, or 48.7%, and \$17.1 million, or 64.4% respectively, compared to the same periods in 2008 primarily due to net impairment losses on securities, and decreases in service charges on deposit accounts, income from bank owned life insurance and trust income. These decreases were partially offset by higher insurance and retail brokerage commissions, increases in card related interchange income, and higher other operating income.

Net impairment losses increased \$8.2 million for the second quarter of 2009 and \$18.1 million for the first six months of 2009 compared to the corresponding periods of 2008. The \$8.8 million net impairment charges in the second quarter of 2009 are due to higher credit related other-than-temporary impairment losses of \$7.7 million on trust preferred collateralized debt obligations and \$1.1 million on bank equity securities. The year-to-date \$18.6 million net impairment charges are due to \$16.1 million in credit related other-than-temporary impairment losses on trust preferred collateralized debt obligations and \$2.5 million on bank equity securities.

Service charges on deposit accounts decreased \$380 thousand, or 7.9%, for the second quarter of 2009 and \$968 thousand, or 10.5%, for the first six months of 2009 compared to the corresponding periods of 2008 primarily due to reduced overdraft charges as a result of a drop in the frequency of occurrences.

Income from bank owned life insurance decreased \$412 thousand, or 28.5%, for the second quarter of 2009 and \$761 thousand, or 25.9%, for the first six months of 2009 compared to the corresponding periods of 2008 due to reductions in the crediting rates of our separately managed accounts.

The reduction in trust income of \$387 thousand, or 25.2%, for the second quarter of 2009 and \$832 thousand, or 27.1%, for the first six months of 2009 compared to the corresponding periods of 2008 was primarily due to a sharp decline in the market value of assets under management.

Table of Contents

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)

Insurance and retail brokerage commissions increased \$362 thousand, or 26.0%, for the second quarter of 2009 and \$701 thousand, or 26.2%, for the first six months of 2009 compared to the corresponding periods of 2008 mainly due to higher sales, additional producers and an enhanced calling program.

Card related interchange income includes income on debit, credit and ATM cards that are issued to consumers and/or businesses. Card related interchange income increased \$188 thousand, or 9.6%, for the second quarter of 2009 and \$331 thousand, or 8.9%, for the first six months of 2009 compared to the corresponding periods of 2008 primarily due to higher usage.

Other operating income increased \$2.5 million, or 103.4%, for the second quarter of 2009 and \$3.0 million, or 61.9%, for the first six months of 2009 compared to the corresponding periods of 2008 primarily due to a \$2.1 million gain from a favorable legal settlement.

Non-Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(dollars in thousands)			
Non-Interest Expense				
Salaries and employee benefits	\$ 21,081	\$ 20,428	\$ 43,581	\$ 40,758
Net occupancy expense	3,528	3,728	7,528	7,635
Furniture and equipment expense	2,977	3,058	5,952	6,136
Advertising expense	595	401	1,108	1,029
Data processing expense	1,165	996	2,297	2,047
Pennsylvania shares tax expense	1,312	1,339	2,643	2,610
Intangible amortization	743	832	1,486	1,663
Collection and repossession expense	1,750	704	2,651	1,319
FDIC insurance	4,863	125	6,384	248
Other professional fees and services	847	934	1,910	1,684
Other operating expenses	6,474	6,340	13,143	12,612
Total non-interest expense	\$ 45,335	\$ 38,885	\$ 88,683	\$ 77,741

Total non-interest expense for the three and six months ended June 30, 2009, increased \$6.5 million, or 16.6%, and \$10.9 million, or 14.1%, over the corresponding periods in 2008. The increase for the six months was primarily due to FDIC insurance, higher salaries and employee benefits, and collection and repossession expense.

Salaries and employee benefits increased \$653 thousand, or 3.2%, for the second quarter of 2009 and \$2.8 million, or 6.9%, for the six months ended June 30, 2009 compared with the same periods in 2008. The increases were primarily due to an increase in the number of employees due to new branch offices, enhancing the consumer infrastructure for small business banking and retail brokerage, annual merit increases in the first

quarter, higher 401(K) expense and higher hospitalization expense. Full time equivalent employees were 1,675 at June 30, 2009 compared to 1,589 at June 30, 2008.

Table of Contents

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 (Continued)

Collection and repossession expenses increased \$1.0 million, or 148.6%, for the second quarter of 2009 and \$1.3 million, or 101.0%, for the six months ended June 30, 2009 compared to the same periods in 2008 primarily due to costs associated with two loans that were transferred to other real estate owned in the first quarter of 2009.

FDIC expense increased \$4.7 million for the second quarter of 2009 and \$6.1 million for the six months ended June 30, 2009 compared to the same periods in 2008 due to the premium increases and the special assessment in the second quarter of \$2.9 million.

Income Tax

The provision for income taxes decreased \$19.6 million for the second quarter of 2009 and \$20.9 million for the first six months ended June 30, 2009, compared to the corresponding periods in 2008. Our effective tax rate was 47.4% for the tax benefit in the second quarter of 2009 and 49.7% for the tax benefit for the first six months of 2009 compared to 18.1% and 15.0% for the tax expense for the corresponding periods of 2008. The 2009 effective tax rate is the result of negative income before taxes as well as permanent differences and tax credits.

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. Proceeds from the maturity and redemption of investment securities totaled \$205.8 million during the first six months of 2009 and were used either for liquidity or to invest in securities of similar quality as our current investment portfolio. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the Federal Home Loan Bank of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank of Cleveland and access to certificates of deposit through brokers. We have increased our borrowing capacity at the Federal Reserve by establishing a Borrower-in-Custody of Collateral arrangement that enables us to pledge certain loans, not being used as collateral at the Federal Home Loan Bank, as collateral for borrowings at the Federal Reserve. At June 30, 2009, our borrowing capacity at the Federal Reserve related to this program was \$697.8 million. We can also raise cash through the sale of earning assets, such as loans and marketable securities, or the sale of debt or equity securities in the capital markets. In the fourth quarter of 2008, we issued 11,500,000 shares of our common stock through a public stock offering, which resulted in gross proceeds of \$115.0 million and increased our capital by \$108.8 million after deducting underwriting discounts, commissions and offering expenses.

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.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

First Commonwealth's long-term liquidity source is a large core deposit base and a strong capital position. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. The level of deposits during any period is influenced by factors outside of management's control, such as the level of short-term and long-term market interest rates and yields offered on competing investments, such as money market mutual funds. During the first six months of 2009, total deposits increased \$205.5 million funding loan growth of \$118.4 million. The following table shows a breakdown of the components of First Commonwealth's interest-bearing deposits:

	June 30, 2009	December 31, 2008
	(dollars in thousands)	
Interest-bearing demand deposits	\$ 99,281	\$ 97,011
Savings deposits	2,045,970	1,773,843
Time deposits	1,748,420	1,842,644
Total interest-bearing deposits	\$ 3,893,671	\$ 3,713,498

At June 30, 2009, noninterest-bearing deposits increased by \$25.3 million and interest-bearing deposits increased \$180.2 million compared to December 31, 2008. The \$2.3 million increase in interest-bearing demand deposits and \$272.1 million increase in savings deposits for the first six months of 2009 was partly offset by the \$94.2 million decrease in time deposits.

Core deposits continue to be a source of liquidity and the growth in these accounts during the past six months has funded loan growth during that period. The following table shows a breakdown of loans by classification as of the periods presented:

	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
	(dollars in thousands)				
Commercial, financial, agricultural and other	\$ 1,233,131	\$ 1,259,498	\$ 1,272,014	\$ 1,148,601	\$ 1,115,536
Real estate-construction	476,762	449,771	464,806	382,225	347,477
Real estate-residential	1,223,690	1,199,472	1,210,985	1,223,611	1,232,071
Real estate-commercial	1,075,659	1,047,331	974,772	938,044	951,250
Loans to individuals	527,529	501,286	495,800	492,119	467,089
Total loans	\$ 4,536,771	\$ 4,457,358	\$ 4,418,377	\$ 4,184,600	\$ 4,113,423

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.

Table of Contents

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 0.74 at both June 30, 2009 and December 31, 2008. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

Following is the gap analysis as of June 30, 2009 and December 31, 2008:

	June 30, 2009 (dollars in thousands)				Over 1 Year	
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Thru 5 Years	Over 5 Years
Loans	\$ 2,143,149	\$ 170,565	\$ 412,258	\$ 2,725,972	\$ 1,628,017	\$ 182,782
Investments	228,954	161,561	173,036	563,551	371,850	424,938
Other interest-earning assets	961	-0-	-0-	961	-0-	-0-
Total interest-sensitive assets (ISA)	2,373,064	332,126	585,294	3,290,484	1,999,867	607,720
Certificates of deposit	471,769	310,363	345,275	1,127,407	606,185	14,746
Other deposits	2,145,333	-0-	-0-	2,145,333	-0-	-0-
Borrowings	1,076,783	10,458	61,919	1,149,160	92,908	40,655
Total interest-sensitive liabilities (ISL)	3,693,885	320,821	407,194	4,421,900	699,093	55,401
Gap	\$ (1,320,821)	\$ 11,305	\$ 178,100	\$ (1,131,416)	\$ 1,300,774	\$ 552,319
ISA/ISL	0.64	1.04	1.44	0.74	2.86	10.97
Gap/Total assets	20.48%	0.18%	2.76%	17.54%	20.17%	8.56%

Table of Contents

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, 2008 (dollars in thousands)				Over 1 Year	
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Thru 5 Years	Over 5 Years
Loans	\$ 2,059,435	\$ 202,071	\$ 351,213	\$ 2,612,719	\$ 1,607,006	\$ 198,652
Investments	227,511	186,099	231,478	645,088	358,419	450,422
Other interest-earning assets	289	-0-	-0-	289	-0-	-0-
Total interest-sensitive assets (ISA)	2,287,235	388,170	582,691	3,258,096	1,965,425	649,074
Certificates of deposit	379,513	336,641	576,788	1,292,942	535,510	14,103
Other deposits	1,870,943	-0-	-0-	1,870,943	-0-	-0-
Borrowings	1,179,358	43,043	10,178	1,232,579	146,830	46,314
Total interest-sensitive liabilities (ISL)	3,429,814	379,684	586,966	4,396,464	682,340	60,417
Gap	\$ (1,142,579)	\$ 8,486	\$ (4,275)	\$ (1,138,368)	\$ 1,283,085	\$ 588,657
ISA/ISL	0.67	1.02	0.99	0.74	2.88	10.74
Gap/Total assets	17.78%	0.13%	0.07%	17.72%	19.97%	9.16%

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, based on June 30, 2009 information (dollars in thousands):

	- 200	- 100	+ 100	+ 200
Net interest income change (12 months):	(4,502)	(22)	(1,473)	(1,725)

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

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

CREDIT RISK

We maintain 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 problem loans with a balance

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

greater than \$100,000, 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.

Nonperforming loans include nonaccrual loans and restructured loans. Nonaccrual loans represent loans on which interest accruals have been discontinued. Restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower.

We discontinue interest accruals on a loan when, based on current information and events, it is probable that we will be unable to fully collect principal or interest due according to the contractual terms of the loan. A loan is also placed in nonaccrual status when, based on regulatory definitions, the loan is maintained on a cash basis due to the weakened financial condition of the borrower. Past due loans are those loans which are contractually past due 90 days or more as to interest or principal payments but are well secured and in the process of collection.

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

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

	2009	June 30, 2008
	(dollars in thousands)	
<u>Nonperforming Loans:</u>		
Loans on nonaccrual basis	\$ 81,285	\$ 50,910
Troubled debt restructured loans	637	139
Total nonperforming loans	\$ 81,922	\$ 51,049
Loans past due in excess of 90 days and still accruing	\$ 14,978	\$ 14,210
Other real estate owned	\$ 25,565	\$ 3,271
Loans outstanding at end of period	\$ 4,536,711	\$ 4,113,423
Average loans outstanding	\$ 4,486,216	\$ 3,941,864
Nonperforming loans as a percentage of total loans	1.81%	1.24%
Provision for credit losses	\$ 56,490	\$ 8,540
Allowance for credit losses	\$ 83,056	\$ 44,505
Net credit losses	\$ 26,193	\$ 6,431
Net credit losses as a percentage of average loans outstanding (annualized)	1.18%	0.33%
Provision for credit losses as a percentage of net credit losses	215.67%	132.79%
Allowance for credit losses as a percentage of average loans outstanding	1.85%	1.13%
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.83%	1.08%

Allowance for credit losses as a percentage of nonperforming loans	101.38%	87.18%
--	---------	--------

Table of Contents

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 impaired loans, and information regarding the relationship of impaired loans to the allowance for credit losses at June 30:

	2009	2008
	(dollars in thousands)	
Recorded investment in impaired loans at end of period	\$ 81,922	\$ 51,049
Average balance of impaired loans for the period	\$ 49,909	\$ 50,948
Allowance for credit losses related to impaired loans	\$ 34,389	\$ 13,721
Impaired loans with an allocation of the allowance for credit losses	\$ 67,977	\$ 44,573
Impaired loans with no allocation of the allowance for credit losses	\$ 13,945	\$ 6,476
Income recorded on impaired loans on a cash basis	\$ 343	\$ 319

Impaired loans increased \$30.9 million to \$81.9 million at June 30, 2009 compared to \$51.0 million at June 30, 2008. During the second quarter of 2009, impaired loans increased \$52.3 million. As of June 30, 2009, commercial loans outside the state of Pennsylvania accounted for \$46.8 million of the \$81.9 million of total impaired loans. Significant additions to impaired loans in the second quarter of 2009 include the following, all of which are out of state participation loans:

A \$20.8 million real estate construction loan in Florida for condominiums

A \$9.2 million commercial and industrial loan in Maryland to a business that develops and manages retirement centers

A \$6.2 million real estate construction loan in Ohio for senior housing/independent living facilities.

A \$5.0 million commercial construction loan in Illinois for a hotel and indoor water park.

Additional information on each of these credits is provided in the Provision for Loan Losses section of Management's Discussion and Analysis.

Offsetting the above mentioned growth in nonperforming loans was the transfer of \$20 million related to two commercial properties to other real estate owned in the first quarter of 2009. As a result, as of June 30, 2009, other real estate owned increased \$22.3 million, to \$25.6 million, when compared to a balance of \$3.3 million at June 30, 2008. Charge-offs of \$12.0 million were recorded in the first quarter of 2009 as a result of the \$20.0 million transfer into other real estate owned.

Loans past due in excess of 90 days and still accruing remained relatively flat at \$15.0 million at June 30, 2009 compared to \$14.2 million at June 30, 2008.

The following tables provide information related to loan losses and nonaccrual loans as of June 30, 2009:

	As of June 30, 2009	
	Outstanding Balance	% of Total Portfolio
Commercial, financial, agricultural and other	\$ 1,233,131	27.18%
Real estate-construction	476,762	10.51%
Real estate-residential	1,223,690	26.97%
Real estate-commercial	1,075,659	23.71%
Loans to individuals	527,529	11.63%
 Total loans, net of unearned income	 \$ 4,536,771	 100.00%

Table of Contents

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, 2009		As of June 30, 2009	
	Net Charge-offs	% of Total Net Charge-offs	Nonaccrual Loans	Nonaccrual as % of Loans
Commercial, financial, agricultural and other	\$ 9,211	35.17%	\$ 16,673	20.51%
Real estate-construction	7,695	29.38%	44,112	54.27%
Real estate-residential	1,791	6.84%	5,265	6.48%
Real estate-commercial	5,478	20.91%	15,220	18.72%
Loans to individuals	2,018	7.70%	15	0.02%
Total loans, net of unearned income	\$ 26,193	100.00%	\$ 81,285	100.00%

As this table illustrates, two categories of loans, Real estate construction and Commercial, financial, agricultural and other, represent a significant portion of the net charge-offs and nonaccrual loans as of and for the six months ended June 30, 2009. Real estate construction loans, which represent only 10.5% of total loans, were 29.4% of net charge-offs and 54.3% of total nonaccrual loans. Commercial, financial, agricultural and other loans were 27.2% of total loans, 35.2% of net charge-offs and 20.5% of total nonaccrual loans.

In each of these two categories, loans generated outside of Pennsylvania represented a greater percentage of the net charge-offs and nonaccrual loans than those generated within Pennsylvania, our core market area. We track market location for loans having an original principal balance greater than \$1 million; loans with original principal balances of \$1 million or less are considered small business loans and are not currently broken down by geographic location. In the case of Real estate construction loans, \$450.6 million or 94.5% had an original balance of \$1 million or greater, and in the case of Commercial, financial, agricultural and other loans, \$1.0 billion or 81.4% had an original balance of \$1 million or greater. The following table for Real estate construction and Commercial, financial, agricultural and other loans having an original balance of greater than \$1 million shows the percentage of such loans that were generated in and out of Pennsylvania; the percentage of net charge-offs for the six months ended June 30, 2009; and the percentage of nonaccrual loans as of June 30, 2009 attributable to loans generated in and out of Pennsylvania.

	% of Loans In Category	% of Net Charge-offs In Category	% of Nonaccrual Loans In Category
Commercial, financial, agricultural and other (original balances greater than \$1 million)			
Loans generated in Pennsylvania	75.94%	100.00%	36.62%
Loans generated out of Pennsylvania	24.06%	0.00%	63.38%
Real estate construction (original balances greater than \$1 million)			
Loans generated in Pennsylvania	56.31%	0.36%	15.10%
Loans generated out of Pennsylvania	43.69%	99.64%	84.90%

CAPITAL RESOURCES

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

At June 30, 2009, shareholders' equity was \$633.3 million, a decrease of \$19.5 million from December 31, 2008. The decrease was primarily due to net loss and dividends paid offset by unrealized holding gains on securities. A strong capital base provides First Commonwealth with a foundation to expand lending, to protect depositors, and

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

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.

While First Commonwealth has no direct sub prime lending exposure, major financial institutions that do have such exposure have incurred significant losses. As a result, the supply of capital needed by these large institutions has outpaced the demand by investors, and regional financial institutions such as First Commonwealth may experience difficulty accessing the capital markets. First Commonwealth and its banking subsidiary are well capitalized; however, we may seek to raise additional capital in the future to fund growth in interest-earning assets or to expand our market area or product offerings through acquisitions or de novo expansion.

In July 2009, First Commonwealth Financial Corporation declared a quarter dividend of \$0.03 per share payable on August 14, 2009. This dividend represents a decrease from the prior quarterly dividend of \$0.12 per share. The dividend reduction was implemented in order to preserve capital during the unprecedented uncertainty and market volatility.

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

The table below presents First Commonwealth's capital position at June 30, 2009:

	Actual Capital Amount	Ratio	Regulatory Minimum Capital Amount	Ratio
	(dollars in thousands)			
Total Capital to Risk Weighted Assets				
First Commonwealth Financial Corporation	\$ 671,661	11.9%	\$ 440,839	8.0%
First Commonwealth Bank	\$ 600,868	11.0%	\$ 436,579	8.0%
Tier I Capital to Risk Weighted Assets				
First Commonwealth Financial Corporation	\$ 588,605	10.7%	\$ 220,420	4.0%
First Commonwealth Bank	\$ 532,582	9.8%	\$ 218,290	4.0%
Tier I Capital to Average Assets				
First Commonwealth Financial Corporation	\$ 588,605	9.4%	\$ 251,307	4.0%
First Commonwealth Bank	\$ 532,582	8.5%	\$ 249,421	4.0%

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%, 6.0%, and 5.0%, respectively. At June 30, 2009, First Commonwealth's banking subsidiary exceeded those requirements.

Table of Contents

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.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors described in Item 1A in First Commonwealth's Annual Report on Form 10-K for the period ended December 31, 2008.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

On April 20, 2009, First Commonwealth Financial Corporation held its Annual Meeting of Shareholders. A total of 65,290,604 of First Commonwealth's shares were present or represented by proxy at the meeting. First Commonwealth's shareholders voted upon (1) the election of 3 persons, named in the Proxy Statement, to serve as directors of First Commonwealth for terms expiring in 2011, and (2) the approval of the First Commonwealth Financial Corporation Incentive Compensation Plan. All directors were elected and there was no solicitation in opposition to management's nominees as listed in the Proxy Statement. The Incentive Compensation Plan was also approved. The following table details the votes cast For and Withhold for each of the Director nominees and For, Against and Abstain for the approval of the Incentive Compensation Plan.

(1) Election of Directors for Terms Expiring in 2011:

Name	Number of Votes Cast	
	For	Withhold
James W. Newill	59,595,131	5,695,473
Laurie S. Singer	60,750,702	4,539,902
Robert J. Ventura	60,979,332	4,311,272

(2) Approval of the First Commonwealth Financial Corporation Incentive Compensation Plan

	Number of Votes Cast		Abstain
For	Against		
47,213,909	8,073,103		943,007

ITEM 5. OTHER INFORMATION

None

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION (Continued)

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
10.1	Director Fee Stock Plan	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

Table of Contents

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: August 7, 2009

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

DATED: August 7, 2009

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