

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form 10-Q  
November 09, 2011  
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 September 30, 2011

Or

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

Commission File Number 001-11138

**First Commonwealth Financial Corporation**

(Exact name of registrant as specified in its charter)

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

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

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

**15701**  
(Zip Code)

**724-349-7220**

(Registrant's telephone number, including area code)

N/A

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

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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

for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Smaller reporting company  Non-accelerated filer

(Do not check if a smaller reporting company)

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

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of November 7, 2011, was 104,906,994.

**Table of Contents**

**FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

**INDEX**

	<b>PAGE</b>
<b><u>PART I.</u></b>	<b><u>Financial Information</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Financial Statements and Supplementary Data (Unaudited)</u></b>
	Included in Part I of this report:
	<u>First Commonwealth Financial Corporation and Subsidiaries</u>
	<u>Condensed Consolidated Statements of Financial Condition</u> 3
	<u>Condensed Consolidated Statements of Income</u> 4
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u> 5
	<u>Condensed Consolidated Statements of Cash Flows</u> 7
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u> 8
<b><u>ITEM 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> 50
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 75
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b> 75
<b><u>PART II.</u></b>	<b><u>Other Information</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b> 76
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b> 76
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 76
<b><u>ITEM 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 76
<b><u>ITEM 4.</u></b>	<b><u>(Removed and Reserved)</u></b> 76
<b><u>ITEM 5.</u></b>	<b><u>Other Information</u></b> 76
<b><u>ITEM 6.</u></b>	<b><u>Exhibits</u></b> 77
	<b><u>Signatures</u></b> 78

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2011	December 31, 2010
	(dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$ 84,810	\$ 69,854
Interest-bearing bank deposits	5,036	4
Securities available for sale, at fair value	1,035,200	967,715
Other investments	41,891	48,859
Loans:		
Portfolio loans	3,973,723	4,218,083
Allowance for credit losses	(72,117)	(71,229)
Net loans	3,901,606	4,146,854
Premises and equipment, net	67,032	66,981
Other real estate owned	33,254	24,700
Goodwill	159,956	159,956
Amortizing intangibles, net	4,214	5,376
Other assets	325,063	322,543
Total assets	\$ 5,658,062	\$ 5,812,842
<b>Liabilities</b>		
Deposits (all domestic):		
Noninterest-bearing	\$ 769,178	\$ 706,889
Interest-bearing	3,715,700	3,910,963
Total deposits	4,484,878	4,617,852
Short-term borrowings	173,779	187,861
Subordinated debentures	105,750	105,750
Other long-term debt	72,709	98,748
Total long-term debt	178,459	204,498
Other liabilities	51,954	52,854
Total liabilities	4,889,070	5,063,065
<b>Shareholders Equity</b>		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued and 104,906,994 shares outstanding at September 30, 2011; 105,515,079 shares issued and 104,846,194 shares outstanding at December 31, 2010	105,563	105,515

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

Additional paid-in capital	366,070	366,488
Retained earnings	302,982	291,492
Accumulated other comprehensive income (loss), net	3,913	(2,458)
Treasury stock (656,461 and 668,885 shares at September 30, 2011 and December 31, 2010)	(7,436)	(7,660)
Unearned ESOP shares	(2,100)	(3,600)
<b>Total shareholders' equity</b>	<b>768,992</b>	<b>749,777</b>
Total liabilities and shareholders' equity	\$ 5,658,062	\$ 5,812,842

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share data)			
<b>Interest Income</b>				
Interest and fees on loans	\$ 49,109	\$ 56,051	\$ 149,371	\$ 170,826
Interest and dividends on investments:				
Taxable interest	8,444	9,193	25,376	29,324
Interest exempt from federal income taxes	9	721	208	4,711
Dividends	11	13	40	59
Interest on bank deposits	27	4	63	77
Total interest income	57,600	65,982	175,058	204,997
<b>Interest Expense</b>				
Interest on deposits	8,097	12,194	26,726	38,841
Interest on short-term borrowings	188	284	551	1,752
Interest on subordinated debentures	1,387	1,429	4,156	4,194
Interest on other long-term debt	448	979	1,391	3,420
Total interest on long-term debt	1,835	2,408	5,547	7,614
Total interest expense	10,120	14,886	32,824	48,207
<b>Net Interest Income</b>	47,480	51,096	142,234	156,790
Provision for credit losses	6,975	4,522	29,904	53,552
<b>Net Interest Income after Provision for Credit Losses</b>	40,505	46,574	112,330	103,238
<b>Noninterest Income</b>				
Change in fair value on impaired securities	(2,535)	(5,787)	(218)	(7,114)
Non-credit related losses (gains) on securities not expected to be sold (recognized in other comprehensive income)	2,535	1,497	218	(2,036)
Net impairment losses	0	(4,290)	0	(9,150)
Net securities gains	0	1,430	2,185	2,412
Trust income	1,603	1,486	5,085	4,378
Service charges on deposit accounts	3,836	4,302	11,010	13,057
Insurance and retail brokerage commissions	1,698	1,600	4,876	5,328
Income from bank owned life insurance	1,411	1,377	4,158	3,935
Income from other real estate owned	1,024	0	1,439	0
Gain on sale of assets	790	215	2,272	628
Card related interchange income	3,053	2,689	8,895	7,695
Credit risk on interest rate swaps	(5,108)	(542)	(5,643)	(836)
Other income	2,492	2,612	7,914	7,532

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

Total noninterest income	10,799	10,879	42,191	34,979
<b>Noninterest Expense</b>				
Salaries and employee benefits	20,418	20,617	63,092	63,991
Net occupancy expense	3,506	3,317	10,733	10,749
Furniture and equipment expense	3,092	3,084	9,407	9,350
Data processing expense	1,533	1,367	4,482	4,282
Pennsylvania shares tax expense	1,434	1,468	4,046	3,982
Intangible amortization	384	408	1,163	1,641
Collection and repossession expense	1,961	1,209	5,003	2,926
Other professional fees and services	1,706	719	3,930	2,947
FDIC insurance	1,177	2,014	4,260	5,989
Loss on sale or write-down of assets	159	92	4,674	2,489
Loan processing fees	851	441	1,832	1,199
Other operating expenses	4,900	6,195	15,628	18,303
Total noninterest expense	41,121	40,931	128,250	127,848
<b>Income Before Income Taxes</b>				
Income tax provision (benefit)	10,183	16,522	26,271	10,369
	1,857	5,863	5,280	(664)
<b>Net Income</b>				
	\$ 8,326	\$ 10,659	\$ 20,991	\$ 11,033
Average Shares Outstanding	104,728,915	97,199,306	104,678,233	89,380,112
Average Shares Outstanding Assuming Dilution	104,728,915	97,203,753	104,678,436	89,382,588
<b>Per Share Data:</b>				
Basic Earnings per Share	\$ 0.08	\$ 0.11	\$ 0.20	\$ 0.12
Diluted Earnings per Share	0.08	0.11	0.20	0.12
Cash Dividends Declared per Common Share	0.03	0.01	0.09	0.05

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands, except share data)

	Shares Outstanding	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, 2010	104,846,194	\$ 105,515	\$ 366,488	\$ 291,492	\$ (2,458)	\$ (7,660)	\$ (3,600)	\$ 749,777
Comprehensive income								
Net income				20,991				20,991
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					7,933			7,933
Non-credit related losses on securities not expected to be sold					(142)			(142)
Reclassification adjustment for gains on securities included in net income					(1,420)			(1,420)
Total other comprehensive income								\$ 6,371
Total comprehensive income								\$ 27,362
Cash dividends declared (\$0.09 per share)				(9,418)				(9,418)
Net decrease in unearned ESOP shares							1,500	1,500
ESOP market value adjustment (\$762, net of \$267 tax benefit)			(495)					(495)
Discount on dividend reinvestment plan purchases			(48)					(48)
Tax benefit of stock options exercised			6					6
Treasury stock acquired	(1,336)					(9)		(9)
Treasury stock reissued	13,760			(83)		155		72
Restricted stock granted	25,000	25	(2)	0		78		101
Common stock issuance	23,376	23	121			0		144
Balance at September 30, 2011	104,906,994	\$ 105,563	\$ 366,070	\$ 302,982	\$ 3,913	\$ (7,436)	\$ (2,100)	\$ 768,992





**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

(dollars in thousands, except share data)

	Shares Outstanding	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, 2009	85,151,875	\$ 86,600	\$ 301,523	\$ 278,887	\$ (6,045)	\$ (16,554)	\$ (5,600)	\$ 638,811
Comprehensive income								
Net income				11,033				11,033
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					1,319			1,319
Non-credit related gains on securities not expected to be sold					1,323			1,323
Reclassification adjustment for losses on securities included in net income					4,412			4,412
Total other comprehensive income								\$ 7,054
Total comprehensive income								\$ 18,087
Cash dividends declared (\$0.05 per share)				(4,261)				(4,261)
Net decrease in unearned ESOP shares							1,500	1,500
ESOP market value adjustment (\$772, net of \$270 tax benefit)			(502)					(502)
Discount on dividend reinvestment plan purchases			(28)					(28)
Tax benefit of stock options exercised			0					0
Treasury stock acquired	(1,291)					(8)		(8)
Treasury stock reissued	728,020		656	(4,785)		8,233		4,104
Restricted stock granted	30,120			(168)		362		194
Common stock issuance	18,914,648	18,915	64,998					83,913
Balance at September 30, 2010	104,823,372	\$ 105,515	\$ 366,647	\$ 280,706	\$ 1,009	\$ (7,967)	\$ (4,100)	\$ 741,810

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(dollars in thousands)</b>	
<b>Operating Activities</b>		
Net income	\$ 20,991	\$ 11,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	29,904	53,552
Deferred tax expense (benefit)	1,387	(7,229)
Depreciation and amortization	7,058	8,142
Net losses on securities and other assets	5,861	6,372
Net amortization of premiums and discounts on securities	794	24
Net amortization of premiums and discounts on long-term debt	(96)	(692)
Income from increase in cash surrender value of bank owned life insurance	(4,158)	(3,935)
Decrease in interest receivable	1,063	2,642
Decrease in interest payable	(1,921)	(1,419)
(Decrease) increase in income tax payable	(718)	5,022
Other-net	(1,222)	9,330
<b>Net cash provided by operating activities</b>	<b>58,943</b>	<b>82,842</b>
<b>Investing Activities</b>		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	0	14,520
Transactions with securities available for sale:		
Proceeds from sales	75,074	141,585
Proceeds from maturities and redemptions	358,875	344,273
Purchases	(489,963)	(252,794)
Proceeds from the redemption of FHLB stock	6,969	0
Proceeds from bank owned life insurance	88	0
Proceeds from sale of loans	5,763	0
Proceeds from sales of other assets	7,037	5,657
Net decrease in loans	184,440	281,884
Purchases of premises and equipment	(6,542)	(4,074)
<b>Net cash provided by investing activities</b>	<b>141,741</b>	<b>531,051</b>
<b>Financing Activities</b>		
Net decrease in federal funds purchased	(800)	(105,000)
Net decrease in other short-term borrowings	(13,281)	(691,912)
Net (decrease) increase in deposits	(132,912)	192,189
Repayments of other long-term debt	(24,444)	(97,030)
Proceeds from issuance of long-term debt	0	50,000
Proceeds from issuance of common stock	144	83,913
Discount on dividend reinvestment plan purchases	(48)	(28)
Dividends paid	(9,418)	(4,261)

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

Proceeds from reissuance of treasury stock	72	4,104
Purchase of treasury stock	(9)	(8)
Net cash used in financing activities	(180,696)	(568,033)
Net increase in cash and cash equivalents	19,988	45,860
Cash and cash equivalents at January 1	69,858	89,559
Cash and cash equivalents at September 30	\$ 89,846	\$ 135,419

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements

**Note 1 Basis of Presentation**

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

The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full year of 2011. These interim financial statements should be read in conjunction with First Commonwealth's 2010 Annual Report on Form 10-K which is available on First Commonwealth's website at <http://www.fcbanking.com>.

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

**Note 2 Supplemental Comprehensive Income Disclosures**

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

	For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount (dollars in thousands)	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains on securities:						
Unrealized holding gains on securities arising during the period	\$ 12,205	\$ (4,272)	\$ 7,933	\$ 2,029	\$ (710)	\$ 1,319
Non-credit related (losses) gains on securities not expected to be sold	(218)	76	(142)	2,036	(713)	1,323
(Gains) losses realized in net income	(2,185)	765	(1,420)	6,788	(2,376)	4,412
<b>Net unrealized gains</b>	<b>9,802</b>	<b>(3,431)</b>	<b>6,371</b>	<b>10,853</b>	<b>(3,799)</b>	<b>7,054</b>
Other comprehensive income	\$ 9,802	\$ (3,431)	\$ 6,371	\$ 10,853	\$ (3,799)	\$ 7,054

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 2 Supplemental Comprehensive Income Disclosures (Continued)

	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 2010		
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount (dollars in thousands)	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains on securities:						
Unrealized holding gains (losses) on securities arising during the period	\$ 4,696	\$ (1,644)	\$ 3,052	\$ (7,866)	\$ 2,753	\$ (5,113)
Non-credit related losses on securities not expected to be sold	(2,535)	887	(1,648)	(1,497)	524	(973)
Losses realized in net income	0	0	0	2,860	(1,001)	1,859
Net unrealized gains (losses)	2,161	(757)	1,404	(6,503)	2,276	(4,227)
Other comprehensive income (loss)	\$ 2,161	\$ (757)	\$ 1,404	\$ (6,503)	\$ 2,276	\$ (4,227)

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 Nine Months Ended September 30, 2011 2010 (dollars in thousands)	
Cash paid during the year for:		
Interest	\$ 34,904	\$ 50,421
Income taxes	4,400	1,216
Noncash investing and financing activities:		
ESOP loan reductions	\$ 1,500	\$ 1,500
Loans transferred to other real estate owned and repossessed assets	25,883	6,061
Receivable for sale of other real estate owned	7,260	0
Loans transferred from held to maturity to available for sale	823	0
Gross increase in market value adjustment to securities available for sale	9,792	10,853
Transfer of securities from held to maturity to available for sale	0	22,433

Correction of Prior Period Error in Cash Flow

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

For certain reporting periods in 2010, we erroneously presented the proceeds from the sale of certain available-for-sale securities within the Proceeds from maturities and redemptions sub-line item of Transactions with securities available-for-sale included in the Investing Activities section of the Consolidated Statements of Cash Flows, instead of within the Proceeds from Sales sub-line item of Transactions with securities available-for-sale. In addition, we erroneously presented the proceeds from the call of a held-to-maturity bond within the Proceeds from maturities and redemptions sub-line item of Transactions with securities available-for-sale included in the Investing Activities section of the Consolidated Statements of Cash Flows instead of within the Proceeds from maturities and redemptions sub-line item of Transactions with securities held-to-maturity.



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 3 Supplemental Cash Flow Disclosures (Continued)****Correction of Prior Period Error in Cash Flow (Continued)**

The errors for the nine-months ended September 30, 2010, have been corrected in the 2010 Consolidated Statements of Cash Flows presented on page 7 by removing the transactions from the Proceeds from maturities and redemptions sub-line item of Transactions with securities available for sale included in the Investing Activities section of the Consolidated Statements of Cash Flows, and including these transactions within the Proceeds from Sales sub-line item of Transactions with securities available-for-sale. Additionally, the proceeds from the call of the held-to-maturity bond was reclassified from the Proceeds from maturities and redemptions sub-line item of Transactions with securities available for sale included in the Investing Activities section of the Consolidated Statements of Cash Flows to the Proceeds from maturities and redemptions sub-line item of Transactions with securities held to maturity.

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 and was not considered material. While the nine-month period of 2010 is corrected in this Form 10-Q and the six-month period of 2010 was corrected in the Form 10-Q as of June 30, 2011, the corrections to the year ended December 31, 2010, will be reflected in future filing of our December 31, 2011 Form 10-K.

The effects of the correction of this error on the sub-lines within the Investing Activities section of the Consolidated Statements of Cash Flows for each respective period, is reflected below.

	For the Six Months Ended June 30, 2010	For the Nine Months Ended September 30, 2010 (dollars in thousands)	For the Year Ended December 31, 2010
<b>Consolidated Statement of Cashflows</b>			
<b>Investing Activities</b>			
Transactions with securities held-to-maturity:			
Proceeds from maturities and redemptions			
Original	\$ 13,063	\$ 13,063	\$ 14,376
Revised	14,520	14,520	14,520
Transactions with securities available-for-sale:			
Proceeds from sales			
Original	19,019	26,754	28,573
Revised	70,043	141,585	143,503
Proceeds from maturities and redemptions			
Original	277,198	460,561	547,761
Revised	224,717	344,273	430,115

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

In accordance with current presentation in the Consolidated Statements of Cash Flows, we have reclassified \$2.6 million related to the redemption of FHLB stock from proceeds from maturities and redemptions of available-for-sale securities to a separate line item. This reclassification decreases the proceeds from maturities and redemptions of available-for-sale securities for the year-ended December 31, 2010.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 4 Earnings per Share**

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average common shares issued	105,563,455	98,258,829	105,545,880	90,638,915
Average treasury stock shares	(656,461)	(709,399)	(658,944)	(878,550)
Average unearned ESOP shares	(148,871)	(304,119)	(181,633)	(336,278)
Average unearned nonvested shares	(29,208)	(46,005)	(27,070)	(43,975)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	104,728,915	97,199,306	104,678,233	89,380,112
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	0	4,447	0	2,476
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	0	0	203	0
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	104,728,915	97,203,753	104,678,436	89,382,588

At September 30, 2011, there were options to purchase 513,210 shares of common stock outstanding, at a price ranging from \$6.36 per share to \$14.55 per share and common stock equivalents outstanding of 20,101 shares at a price ranging from \$5.70 per share to \$6.82 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2010, there were options to purchase 627,106 shares of common stock outstanding, at a price ranging from \$6.07 per share to \$14.55 per share and common stock equivalents outstanding of 4,218 shares at a price of \$12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

**Note 5 Variable Interest Entities**

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

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

Commonwealth has invested in as

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 5 Variable Interest Entities (Continued)**

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

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

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	\$ 854	\$ 925

**Note 6 Commitments and Contingent Liabilities****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:

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,440,447	\$ 1,471,692
Financial standby letters of credit	53,631	64,348
Performance standby letters of credit	74,737	79,140
Commercial letters of credit	20	20

The current notional amounts outstanding as of September 30, 2011 include financial standby letters of credit of \$3.1 million, performance standby letters of credit of \$2.7 million, and commercial letters of credit of \$0.5 million issued during the first nine months of 2011. A liability

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

of \$0.2 million and \$0.1 million has been recorded as of September 30, 2011 and December 31, 2010, respectively, which represents the fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued. See Note 12, Fair Value 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)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

**Commitments and letters of credit (Continued)**

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. An evaluation of the credit risk in these instruments resulted in the recording of a liability of \$0.8 million as of September 30, 2011 and \$1.4 million as of December 31, 2010. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

**Legal proceedings**

**McGrogan v. First Commonwealth Bank** is a class action that was filed on January 12, 2009, in the Court of Common Pleas of Allegheny County, Pennsylvania. The action alleges that First Commonwealth Bank promised class members a minimum interest rate of 8% on its IRA Market Rate Savings Account for as long as the class members kept their money on deposit in the IRA account. The class asserts that First Commonwealth committed fraud, breached its modified contract with the class members, and violated the Pennsylvania Unfair Trade Practice and Consumer Protection Law when it resigned as custodian of the IRA Market Rate Savings Accounts in 2008 and offered the class members a roll-over IRA account with a 3.5% interest rate. At that time, aggregate balances in the IRA Market Rate Savings accounts totaled approximately \$11.5 million. The class members seek monetary damages for the alleged breach of contract, punitive damages for the alleged fraud and Unfair Trade Practice and Consumer Protection Law violations, and attorney's fees. On July 27, 2011, the court granted class certification as to breach of contract claim and denied class certification as to the fraud and Pennsylvania Unfair Trade Practice and Consumer Protection Law claims. The amount of liability, if any, will depend upon information which is not presently known to the Bank, including the Court's interpretation of the IRA contract and each class member's life expectancy and pace of distributions from the IRA account. Accordingly, the Company is unable to estimate the amount or range of a reasonably possible loss.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

Note 7 Investment Securities

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

	September 30, 2011					December 31, 2010		
	Amortized	Gross	Gross	Estimated	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value		Gains	Losses	Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	\$ 32,366	\$ 4,152	\$ 0	\$ 36,518	\$ 36,719	\$ 3,874	\$ 0	\$ 40,593
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage Backed Securities Residential	683,653	32,747	(70)	716,330	618,454	26,513	(2,986)	641,981
Mortgage Backed Securities Commercial	202	1	(1)	202	233	1	(1)	233
Other Government- Sponsored Enterprises	242,811	967	(206)	243,572	184,531	225	(869)	183,887
Obligations of States and Political Subdivisions	445	20	0	465	47,175	644	0	47,819
Corporate Securities	11,818	248	(699)	11,367	21,226	494	(344)	21,376
Pooled Trust Preferred Collateralized Debt Obligations	56,606	1	(31,909)	24,698	58,780	16	(32,444)	26,352
Total Debt Securities	1,027,901	38,136	(32,885)	1,033,152	967,118	31,767	(36,644)	962,241
Equity Securities	2,048	0	0	2,048	5,137	337	0	5,474
Total Securities Available for Sale	\$ 1,029,949	\$ 38,136	\$ (32,885)	\$ 1,035,200	\$ 972,255	\$ 32,104	\$ (36,644)	\$ 967,715



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 7 Investment Securities (Continued)**

The amortized cost and estimated fair value of debt securities available for sale at September 30, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
	<b>(dollars in thousands)</b>	
Due within one year	\$ 4,805	\$ 4,813
Due after one but within five years	238,090	238,852
Due after five but within ten years	361	372
Due after ten years	68,424	36,065
	311,680	280,102
Mortgage Backed Securities (a)	716,221	753,050
<b>Total Debt Securities</b>	<b>\$ 1,027,901</b>	<b>\$ 1,033,152</b>

(a) Mortgage Backed Securities include an amortized cost of \$32 million and a fair value of \$37 million for Obligations of U.S. Government Agencies issued by Ginnie Mae. Obligations of U.S. Government-Sponsored Enterprises includes obligations issued by Fannie Mae and Freddie Mac which had an amortized cost of \$684 million and a fair value of \$716 million.

For the nine months ended September 30, 2011, the Company realized proceeds of \$75.1 million from the sale of available for sale securities which included \$2.4 million in gross gains and \$0.2 million in gross losses. For the nine months ended September 30, 2010, the Company realized proceeds of \$141.6 million from the sale of available for sale securities which included \$3.2 million in gross gains and \$0.8 million in gross losses.

During the first quarter of 2011, \$5.2 million in single issue trust preferred securities and \$1.2 million in corporate debentures owned by a non-bank subsidiary of the Company were sold in order to reinvest the proceeds in more liquid assets for that subsidiary. The amounts sold represent the subsidiaries entire portfolio of these investments and resulted in a net gain of \$0.3 million. During the first half of 2011, \$3.0 million in single issue trust preferred securities held by another subsidiary were called, resulting in a gain of \$0.1 million. Additionally, during 2011 the Company continued its strategy to liquidate its obligations of states and political subdivisions in order to mitigate future credit risk and improve its tax position. Investments in obligations of states and political subdivisions totaled \$0.5 million and \$47.8 million as of September 30, 2011 and December 31, 2010, respectively. This decline is a result of \$3.6 million in maturities and \$42.5 million in sales which provided \$0.3 million in recognized gains. As of September 30, 2011, all of the remaining investments in obligations of states and political subdivisions were classified as available for sale and none were in an unrealized loss position.

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

Securities available for sale with a fair value of \$648 million and \$660 million were pledged as of September 30, 2011 and December 31, 2010, respectively, to secure public deposits and for other purposes required or permitted by law.

As of September 30, 2011 and December 31, 2010, there were no securities classified as held to maturity.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 7 Investment Securities (Continued)**

For the nine months ended September 30, 2010, net securities gains included \$50 thousand in gains and no losses for debt securities held to maturity.

**Note 8 Other Investments**

As a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh, First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of September 30, 2011 and December 31, 2010, our FHLB stock totaled \$41.9 million and \$48.9 million, respectively, and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as temporarily discontinued the repurchase of excess stock from members. In October 2010, the FHLB resumed the repurchase of excess stock from its members by repurchasing the lesser of 5% of the members total capital stock outstanding or its total excess capital stock. Since that time, a similar repurchase has occurred on a quarterly basis, resulting in \$7.0 million in repurchases during the first nine months of 2011. Decisions regarding any future repurchases of excess capital stock will be made by the FHLB on a quarterly basis.

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

its operating performance;

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

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

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

its liquidity and funding position.

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

Management reviewed the FHLB's Form 10-Q for the period ended June 30, 2011 filed with the SEC on August 9, 2011 in order to evaluate all of these considerations. First Commonwealth concluded that the par value of its investment in FHLB stock is recoverable. Accordingly, no impairment charge was recorded on these securities for the nine months ended September 30, 2011. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities**

As required by FASB ASC Topic 320, Investments—Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in other comprehensive income (OCI). In the third quarter of 2011, no other-than-temporary impairment charges were recognized and \$2.5 million in non-credit related losses on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. In the third quarter of 2010, we recorded \$4.3 million in other-than-temporary impairment charges. These charges include \$4.0 million in credit related other-than-temporary impairment on five trust preferred collateralized debt obligations and \$0.3 million recorded on one equity security related to a Pennsylvania-based financial institution. Additionally, for the three months ended September 30, 2010, \$1.5 million in non-credit related losses on securities that were determined to be impaired in the current or any previous periods was recorded in OCI on our trust preferred collateralized debt obligations. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities.

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

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

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

The following table presents the gross unrealized losses and estimated fair values at September 30, 2011 by investment category and time frame for which securities have been in a continuous unrealized loss position:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 26,807	\$ (69)	\$ 17	\$ (1)	\$ 26,824	\$ (70)
Mortgage Backed Securities Commercial	0	0	157	(1)	157	(1)
Other Government-Sponsored Enterprises	28,495	(206)	0	0	28,495	(206)
Corporate Securities	4,402	(699)	0	0	4,402	(699)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	24,645	(31,909)	24,645	(31,909)
<b>Total Securities</b>	<b>\$ 59,704</b>	<b>\$ (974)</b>	<b>\$ 24,819</b>	<b>\$ (31,911)</b>	<b>\$ 84,523</b>	<b>\$ (32,885)</b>

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

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



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

At September 30, 2011, pooled trust preferred collateralized debt obligations accounted for 97% of total unrealized losses, corporate fixed income comprised 2% of unrealized losses and fixed income securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises accounted for 1%. There were no equity securities in an unrealized loss position.

As of September 30, 2011, our corporate securities had an amortized cost and an estimated fair value of \$11.8 million and \$11.4 million, respectively, and were comprised of single issue trust preferred securities issued primarily by money center and large regional banks. Included in the corporate securities portfolio are investments which had a gross unrealized loss of \$0.7 million as of September 30, 2011 and \$0.3 million as of December 31, 2010. After a review of each of the issuer's asset quality, earnings trend and capital position, it was determined that none of the issues in an unrealized loss position were other-than-temporarily impaired. Additionally, all interest payments on these securities are being made as contractually required.

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

The following table provides information related to our pooled trust preferred collateralized debt obligations as of September 30, 2011:

**Pooled Trust Preferred Collateralized Debt Obligations**

(dollars in thousands)

Deal	Class	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Moody's / Fitch Ratings	Number of Banks	Deferrals and Defaults as a Percentage of Current Collateral	Excess Subordination as a Percentage of Current Performing Collateral
Pre TSL I	Senior	\$ 2,290	\$ 2,113	\$ (177)	A2/BBB	24	38.07%	270.58%
Pre TSL IV	Mezzanine	1,830	680	(1,150)	Ca/CCC	6	27.07%	32.28%
Pre TSL V	Mezzanine	52	53	1	Caa3/D	3	100.00%	0.00%
Pre TSL VI	Mezzanine	235	190	(45)	Ca/D	5	73.62%	508.75%
Pre TSL VII	Mezzanine	3,965	2,188	(1,777)	Ca/C	18	67.87%	0.00%
Pre TSL VIII	Mezzanine	1,652	808	(844)	C/C	35	45.91%	0.00%
Pre TSL IX	Mezzanine	2,227	763	(1,464)	Ca/C	48	31.02%	0.00%
Pre TSL X	Mezzanine	1,319	686	(633)	C/C	53	49.98%	0.00%
Pre TSL XII	Mezzanine	5,437	2,380	(3,057)	Ca/C	77	32.69%	0.00%



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

Pre TSL XIII	Mezzanine	11,897	4,327	(7,570)	Ca/C	68	32.31%	0.00%
Pre TSL XIV	Mezzanine	12,597	4,353	(8,244)	Ca/C	63	36.97%	30.94%
MMCap I	Senior	5,958	5,107	(851)	A3/BBB	25	35.13%	334.76%
MMCap I	Mezzanine	837	420	(417)	Ca/C	25	35.13%	4.92%
MM Comm IX	Mezzanine	6,310	630	(5,680)	Ca/D	31	50.68%	0.00%
Total		\$ 56,606	\$ 24,698	\$ (31,908)				

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

As of September 30, 2011, the book value of our pooled trust preferred collateralized debt obligations totaled \$56.6 million with a fair value of \$24.7 million, which includes securities comprised of 355 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainder are mezzanine tranches, three of which have no senior class remaining in the issue. Two of the pooled issues, representing \$8.2 million of the \$56.6 million book value, remain above investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of September 30, 2011, after taking into account management's best estimates of future interest deferrals and defaults, eight of our securities had no excess subordination in the tranches we own and six of our securities had excess subordination which ranged from 5% to 509% of the current performing collateral.

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

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

As of September 30, 2011, none of the pooled trust preferred collateralized debt obligations were considered to be nonperforming securities, compared to \$15.8 million which were considered nonperforming at December 31, 2010. These securities were returned to performing status in the second quarter of 2011 because of growing evidence supporting management's estimate of future cash flows indicating that all remaining principal and interest will be received. Support for these estimates include: no other-than-temporary impairment charges have been recorded since the third quarter of 2010, improvement in the underlying collateral of these bonds evidenced by a reduced level of new interest payment deferrals and principal defaults as well as an increase in actual cures of deferring collateral.

Additional information related to the discounted cash flow analysis follows:

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at September 30, 2011. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

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

**Estimate of Future Cash Flows** Cash flows are constructed in an INTEX cash flow model which includes each deal's structural features. For collateral issued by financial institutions with over \$15 billion in asset size, our estimate of future cash flows includes a 20% prepayment rate in years 3 and 4 and a 2% prepayment rate thereafter. The modeled cash flows are then used to estimate if all the scheduled principal and interest payments of our investments will be returned.

**Credit Analysis** A quarterly credit evaluation is performed for each of the 355 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

**Probability of Default** A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and therefore a 100% probability of default is assigned. However, for some deferring collateral there is the possibility that they become current on interest or principal payments at some point in the future and in those cases a probability that the deferral will ultimately cure is assigned. The probability of default is updated quarterly. As of September 30, 2011, default probabilities for performing collateral ranged from 0.33% to 75%.

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

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

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

Our cash flow analysis as of September 30, 2011, indicates no additional credit related other-than-temporary impairment has occurred on our pooled trust preferred securities since December 31, 2010. Based upon the analysis performed by management, it is probable that eight of our pooled trust preferred securities will

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded in prior years. These securities are identified in the table on page 19 with 0% Excess Subordination as a Percentage of Current Performing Collateral. For the remaining securities listed in that table, our analysis as of September 30, 2011 indicates it is probable that we will collect all contractual principal and interest payments.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands)			
Balance, beginning (a)	\$ 44,850	\$ 40,876	\$ 44,850	\$ 36,161
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	0	0	0	0
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	0	3,974	0	8,689
Balance, ending	\$ 44,850	\$ 44,850	\$ 44,850	\$ 44,850

- (a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods. For the nine months ended September 30, the beginning balance represents impairment losses taken before January 1 of the respective year. For the three months ended September 30, the beginning balance represents impairment losses taken before July 1 of the respective year.

In the third quarter of 2011, there were no other-than-temporary impairment charges recorded on equity securities. There was \$0.3 million of other-than-temporary impairment charges recognized in the third quarter of 2010 on one equity security related to a Pennsylvania-based financial institution. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of September 30, 2011, there are no equity securities in an unrealized loss position. At September 30, 2010, there was one equity security in an unrealized loss position of \$4 thousand.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 10 Loans and Allowance for Credit Losses**

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

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Commercial, financial, agricultural and other	\$ 950,547	\$ 913,814
Real estate construction	97,354	261,482
Residential real estate	1,096,339	1,127,273
Commercial real estate	1,284,720	1,354,074
Loans to individuals	544,763	561,440
Total loans	\$ 3,973,723	\$ 4,218,083

During the nine months ended September 30, 2011, loans decreased \$244.4 million or 6% compared to balances outstanding at December 31, 2010. Declines were experienced in all categories except commercial, financial, agricultural and other and can be attributed to the following: real estate construction declined as the result of completed construction projects being moved to the commercial real estate category; the decline in residential real estate loans can be attributed to planned runoff in this portfolio; commercial real estate decreased largely as a result of payoffs by the conduit markets and other lenders which provided longer term, lower rate financing to several borrowers; and loans to individuals declined primarily because of weaker consumer loan demand.

**Credit Quality Information**

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

**Pass** No change in credit rating of borrower. Acceptable levels of risk exist in the relationship.

**Other Assets Especially Mentioned (OAEM)**

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

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

Doubtful

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

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

The following tables represent our credit risk profile by creditworthiness:

	September 30, 2011					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
Pass	\$ 860,553	\$ 43,295	\$ 1,084,381	\$ 1,040,685	\$ 544,746	\$ 3,573,660
Non-Pass						
OAEM	24,063	6,490	6,449	83,318	10	120,330
Substandard	60,902	41,858	5,509	160,717	7	268,993
Doubtful	5,029	5,711	0	0	0	10,740
Total Non-Pass	89,994	54,059	11,958	244,035	17	400,063
Total	\$ 950,547	\$ 97,354	\$ 1,096,339	\$ 1,284,720	\$ 544,763	\$ 3,973,723

	December 31, 2010					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
Pass	\$ 778,260	\$ 181,348	\$ 1,115,825	\$ 1,062,400	\$ 561,360	\$ 3,699,193
Non-Pass						



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

OAEM	54,318	10,845	6,198	82,361	6	153,728
Substandard	81,236	60,712	5,250	209,313	74	356,585
Doubtful	0	8,577	0	0	0	8,577
Total Non-Pass	135,554	80,134	11,448	291,674	80	518,890
Total	\$ 913,814	\$ 261,482	\$ 1,127,273	\$ 1,354,074	\$ 561,440	\$ 4,218,083

Portfolio Risks

Credit quality measures as of September 30, 2011 improved compared to December 31, 2010 as criticized loans decreased \$118.8 million, or 23%, and delinquency on accruing loans declined \$3.8 million, or 9%. For this same period, nonaccrual loans increased \$11.2 million as some non-pass credits were placed on nonaccrual status.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

*Portfolio Risks (Continued)*

Charge-offs for the nine months ended September 30, 2011 totaled \$30.1 million compared to \$52.5 million for the nine months ended September 30, 2010. The decrease of \$22.4 million compared to 2010 is primarily the result of a charge-off in the second quarter of 2010 for a construction loan in Florida.

Criticized loans, or loans designated OAEM, substandard or doubtful, totaled \$400.1 million at September 30, 2011 and represented 10% of the loan portfolio, compared to 12% of the portfolio as of December 31, 2010. These loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate at this time. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

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

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

In addition, during the first nine months of 2011, 20 relationships were classified as troubled debt restructuring. These loans increased the nonperforming loans balance by \$22.2 million and increased specific reserves by \$2.1 million. The most significant additions were a \$6.9 million commercial real estate loan for a retail strip development in western Pennsylvania and two commercial real estate loans totaling \$9.9 million. All three of these loans were modified with maturity extensions after reaching the maturity of a balloon payment.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

The following tables delineate the aging analysis of the recorded investments in past due loans as of September 30, 2011 and December 31, 2010. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

	September 30, 2011						
	30-59 Days past due	60-89 Days past due	90 Days and greater and still accruing	Nonaccrual (dollars in thousands)	Total past due and nonaccrual	Current	Total
Commercial, financial, agricultural and other	\$ 1,537	\$ 772	\$ 424	\$ 35,641	\$ 38,374	\$ 912,173	\$ 950,547
Real estate construction	0	0	0	36,191	36,191	61,163	97,354
Residential real estate	6,318	2,021	10,104	3,636	22,079	1,074,260	1,096,339
Commercial real estate	5,118	7,557	798	51,909	65,382	1,219,338	1,284,720
Loans to individuals	2,851	778	1,240	7	4,876	539,887	544,763
Total	\$ 15,824	\$ 11,128	\$ 12,566	\$ 127,384	\$ 166,902	\$ 3,806,821	\$ 3,973,723

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

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

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

*Nonaccrual Loans*

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

*Impaired Loans*

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

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

Nonperforming loans increased \$44.4 million to \$161.9 million at September 30, 2011 compared to \$117.5 million at December 31, 2010. As a result, the specific allowance for nonperforming loans increased by \$11.0 million at September 30, 2011 compared to December 31, 2010. Unfunded commitments related to nonperforming loans were \$6.7 million at September 30, 2011 and an off balance sheet reserve of \$0.5 million has been established for these commitments.

Significant additions to nonaccrual loans for the nine months ended September 30, 2011 include the following:

\$20.7 million commercial real estate loan in Pennsylvania

\$13.7 million shared national credit commercial loan for an information technology firm in Maryland

\$9.7 million loan for a western Pennsylvania office complex

\$8.7 million for three real estate construction projects in eastern Pennsylvania

\$3.3 million commercial real estate project in Pennsylvania

\$3.1 million loan for a western Pennsylvania manufacturer

Significant reductions to nonaccrual loans for the nine months ended September 30, 2011 include the following:

Movement of \$11.3 million loan for a waste management company to accrual status. However, this loan continues to be classified as nonperforming because modifications made to the original loan contract have resulted in classification as a troubled debt restructuring.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

\$10.0 million commercial real estate loan for an office building for which a charge-off was taken and was subsequently transferred to OREO

\$4.0 million land development loan in central Pennsylvania which was transferred to OREO

\$4.0 million construction loan in Florida which was transferred to OREO

\$2.0 million in commercial real estate loans in western Pennsylvania which was transferred to OREO

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of September 30, 2011 and December 31, 2010. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated based on month-end balances of the loans of the period reported.

	Recorded Investment	September 30, 2011 Unpaid Principal Balance (dollars in thousands)	Related Allowance
<b>With no related allowance recorded:</b>			
Commercial, financial, agricultural and other	\$ 1,336	\$ 1,425	\$ 0
Real estate construction	12,422	34,912	0
Residential real estate	3,215	3,741	0
Commercial real estate	18,059	19,116	0
Loans to individuals	7	7	0
<b>Subtotal</b>	<b>35,039</b>	<b>59,201</b>	<b>0</b>
<b>With an allowance recorded:</b>			
Commercial, financial, agricultural and other	36,959	37,261	10,503

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

Real estate construction	23,769	26,018	12,551
Residential real estate	737	738	171
Commercial real estate	65,380	65,621	11,674
Loans to individuals	0	0	0
Subtotal	126,845	129,638	34,899
Total	\$ 161,884	\$ 188,839	\$ 34,899



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

	For the Nine Months Ended September 30, 2011		For the Nine Months Ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)			
<b>With no related allowance recorded:</b>				
Commercial, financial, agricultural and other	\$ 3,695	\$ 11	\$ 2,455	\$ 2

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

Real estate construction	21,611	1	25,435	0
Residential real estate	2,519	4	1,831	0
Commercial real estate	27,322	246	19,636	9
Loans to individuals	13	0	57	0
<b>Subtotal</b>	<b>55,160</b>	<b>262</b>	<b>49,414</b>	<b>11</b>
<b>With an allowance recorded:</b>				
Commercial, financial, agricultural and other	29,614	126	49,639	7
Real estate construction	19,858	0	33,823	0
Residential real estate	422	1	1,562	0
Commercial real estate	35,595	301	12,420	0
Loans to individuals	0	0	0	0
<b>Subtotal</b>	<b>85,489</b>	<b>428</b>	<b>97,444</b>	<b>7</b>
<b>Total</b>	<b>\$ 140,649</b>	<b>\$ 690</b>	<b>\$ 146,858</b>	<b>\$ 18</b>

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

	For the Three Months Ended September 30, 2011		For the Three Months Ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)			
<b>With no related allowance recorded:</b>				
Commercial, financial, agricultural and other	\$ 1,989	\$ 6	\$ 1,620	\$ 2
Real estate construction	16,465	(1)	20,583	0
Residential real estate	3,131	3	1,777	0
Commercial real estate	19,676	228	22,646	3
Loans to individuals	7	0	67	0
Subtotal	41,268	236	46,693	5
<b>With an allowance recorded:</b>				
Commercial, financial, agricultural and other	37,552	50	49,598	3
Real estate construction	20,237	(2)	13,358	0
Residential real estate	669	1	1,980	0
Commercial real estate	51,677	124	15,961	0
Loans to individuals	0	0	0	0
Subtotal	110,135	173	80,897	3
Total	\$ 151,403	\$ 409	\$ 127,590	\$ 8

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

As a result of adopting the amendments in ASU 2011-02, all restructurings that occurred on or after January 1, 2011 were assessed for identification as troubled debt restructurings. No additional troubled debt restructurings were identified for loans for which the allowance for credit losses would have previously been measured under a general allowance for credit losses methodology.

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

As of September 30, 2011, troubled debt restructured loans totaled \$35.1 million. In 2011, 20 relationships, comprised of 33 loans, totaling \$22.2 million were identified as troubled debt restructurings resulting in specific reserves of \$2.1 million. In the first nine months of 2010, four relationships, comprised of seven loans, totaling \$13.2 million were identified as troubled debt restructurings resulting in specific reserves of \$0.8 million. Of the \$13.2 million identified in the nine month period ended September 30, 2010, \$12.8 million related to loans in nonaccrual status. Commitments outstanding on troubled debt restructured loans totaled \$12.6 million as of September 30, 2011, all of which related to letters of credit for one loan relationship.

In all cases, in the tables below the decrease in the post-modification balance compared to the pre-modification balance is a result of customer payments and not forgiveness of debt.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

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

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the first nine months of 2011:

	Number of Contracts	Pre- Modification Outstanding Recorded Investment (dollars in thousands)	Post- Modification Outstanding Recorded Investment (dollars in thousands)	Specific Reserve
<b>Troubled Debt Restructurings:</b>				
Commercial, financial, agricultural and other	9	\$ 2,317	\$ 2,298	\$ 569
Real estate construction	3	354	398	0
Residential real estate	4	267	264	7
Commercial real estate	17	19,350	19,212	1,551
Loans to individuals	0	0	0	0
<b>Total</b>	<b>33</b>	<b>\$ 22,288</b>	<b>\$ 22,172</b>	<b>\$ 2,127</b>

	Reason for Modification		
	Extend Maturity	Modify Rate	Modify Payments
Commercial, financial, agricultural and other	\$ 100	\$ 0	\$ 2,217
Real estate construction	354	0	0
Residential real estate	0	88	179
Commercial real estate	17,202	170	1,978
Loans to individuals	0	0	0
<b>Total</b>	<b>\$ 17,656</b>	<b>\$ 258</b>	<b>\$ 4,374</b>

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the first nine months of 2010:

	Number of Contracts	Pre- Modification Outstanding Recorded Investment (dollars in thousands)	Post- Modification Outstanding Recorded Investment (dollars in thousands)	Specific Reserve
<b>Troubled Debt Restructurings:</b>				
Commercial, financial, agricultural and other	4	\$ 518	\$ 500	\$ 250
Real estate construction	1	2,070	556	556
Residential real estate	0	0	0	0
Commercial real estate	2	10,616	9,781	0
Loans to individuals	0	0	0	0
<b>Total</b>	<b>7</b>	<b>\$ 13,204</b>	<b>\$ 10,837</b>	<b>\$ 806</b>

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

	Reason for Modification		
	Extend Maturity	Modify Rate	Modify Payments
Commercial, financial, agricultural and other	\$ 250	\$ 94	\$ 174
Real estate construction	0	2,070	0
Residential real estate	0	0	0
Commercial real estate	0	10,616	0
Loans to individuals	0	0	0
Total	\$ 250	\$ 12,780	\$ 174

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the three months ended September 30, 2011:

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Specific Reserve
(dollars in thousands)				
<b>Troubled Debt Restructurings:</b>				
Commercial, financial, agricultural and other	1	\$ 49	\$ 46	\$ 0
Real estate construction	0	0	0	0
Residential real estate	2	177	175	7
Commercial real estate	3	520	517	0
Loans to individuals	0	0	0	0
Total	6	\$ 746	\$ 738	\$ 7

	Reason for Modification		
	Extend Maturity	Modify Rate	Modify Payments
Commercial, financial, agricultural and other	\$ 0	\$ 0	\$ 49
Real estate construction	0	0	0
Residential real estate	0	73	104
Commercial real estate	39	0	481
Loans to individuals	0	0	0
Total	\$ 39	\$ 73	\$ 634



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

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

The following tables provide detail, including specific reserve and reasons for modification, related to loans identified as troubled debt restructurings during the three months ended September 30, 2010:

	Number of Contracts	Pre- Modification Outstanding Recorded Investment (dollars in thousands)	Post- Modification Outstanding Recorded Investment (dollars in thousands)	Specific Reserve
<b>Troubled Debt Restructurings:</b>				
Commercial, financial, agricultural and other	3	\$ 424	\$ 424	\$ 250
Real estate construction	0	0	0	0
Residential real estate	0	0	0	0
Commercial real estate	0	0	0	0
Loans to individuals	0	0	0	0
<b>Total</b>	<b>3</b>	<b>\$ 424</b>	<b>\$ 424</b>	<b>\$ 250</b>

	Reason for Modification		
	Extend Maturity	Modify Rate	Modify Payments
Commercial, financial, agricultural and other	\$ 250	\$ 0	\$ 174
Real estate construction	0	0	0
Residential real estate	0	0	0
Commercial real estate	0	0	0
Loans to individuals	0	0	0
<b>Total</b>	<b>\$ 250</b>	<b>\$ 0</b>	<b>\$ 174</b>

The troubled debt restructurings included in the above tables are also included in the impaired loan tables provided earlier in this footnote. Loans defined as modified due to a change in rate include loans that were modified for a change in rate as well as a reamortization of the principal and

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

an extension of the maturity. For the nine months ended September 30, 2011 and 2010, \$0.2 million and \$0.1 million, respectively, of total rate modifications represent troubled debt restructured loans with modifications to the rate as well as payment due to reamortization. All rate modifications reported for the three month periods ended September 30, 2011 were modifications of the rate only.

A trouble debt restructuring is considered to be in default when a restructured loan is 90 days or more past due. For the three and nine months ended September 30, 2011 and 2010, there were no loans restructured within the preceding twelve months which were considered to be in default.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

	For the Nine Months Ended September 30, 2011							Total
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated		
	(dollars in thousands)							
<b>Allowance for credit losses:</b>								
Beginning balance	\$ 21,700	\$ 18,002	\$ 5,454	\$ 16,913	\$ 4,215	\$ 4,945	\$ 71,229	
Charge-offs	(3,642)	(14,570)	(2,686)	(6,918)	(2,332)	0	(30,148)	
Recoveries	335	0	118	239	440	0	1,132	
Provision	196	11,984	3,770	12,443	1,708	(197)	29,904	
Ending balance	\$ 18,589	\$ 15,416	\$ 6,656	\$ 22,677	\$ 4,031	\$ 4,748	\$ 72,117	
Ending balance: individually evaluated for impairment	\$ 10,503	\$ 12,551	\$ 171	\$ 11,674	\$ 0	\$ 0	\$ 34,899	
Ending balance: collectively evaluated for impairment	\$ 8,086	\$ 2,865	\$ 6,485	\$ 11,003	\$ 4,031	\$ 4,748	\$ 37,218	
<b>Loans:</b>								
Ending balance	\$ 950,547	\$ 97,354	\$ 1,096,339	\$ 1,284,720	\$ 544,763		\$ 3,973,723	
Ending balance: individually evaluated for impairment	\$ 37,738	\$ 35,957	\$ 2,290	\$ 81,375	\$ 0		\$ 157,360	
Ending balance: collectively evaluated for impairment	\$ 912,809	\$ 61,397	\$ 1,094,049	\$ 1,203,345	\$ 544,763		\$ 3,816,363	

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

	For the Nine Months Ended September 30, 2010						
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
(dollars in thousands)							
<b>Allowance for credit losses:</b>							
Beginning balance	\$ 31,369	\$ 18,224	\$ 5,847	\$ 17,526	\$ 4,731	\$ 3,942	\$ 81,639
Charge-offs	(2,949)	(41,374)	(3,673)	(1,824)	(2,695)	0	(52,515)
Recoveries	2,270	0	154	119	427	0	2,970
Provision	7,805	36,574	2,696	3,495	1,796	1,186	53,552
Ending balance	\$ 38,495	\$ 13,424	\$ 5,024	\$ 19,316	\$ 4,259	\$ 5,128	\$ 85,646
Ending balance: individually evaluated for impairment	\$ 23,494	\$ 5,915	\$ 8	\$ 4,729	\$ 0	\$ 0	\$ 34,146
Ending balance: collectively evaluated for impairment	\$ 15,001	\$ 7,509	\$ 5,016	\$ 14,587	\$ 4,259	\$ 5,128	\$ 51,500
<b>Loans:</b>							
Ending balance	\$ 953,447	\$ 317,491	\$ 1,142,583	\$ 1,316,142	\$ 569,910		\$ 4,299,573
Ending balance: individually evaluated for impairment	\$ 51,055	\$ 25,824	\$ 2,246	\$ 41,570	\$ 0		\$ 120,695
Ending balance: collectively evaluated for impairment	\$ 902,392	\$ 291,667	\$ 1,140,337	\$ 1,274,572	\$ 569,910		\$ 4,178,878

## For the Three Months Ended September 30, 2011

	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
<b>Allowance for credit losses:</b>							

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

Beginning balance	\$ 23,175	\$ 17,701	\$ 6,870	\$ 18,780	\$ 3,870	\$ 4,770	\$ 75,166
Charge-offs	(685)	(6,522)	(986)	(1,343)	(810)	0	(10,346)
Recoveries	74	0	22	75	151	0	322
Provision	(3,975)	4,237	750	5,165	820	(22)	6,975
Ending balance	\$ 18,589	\$ 15,416	\$ 6,656	\$ 22,677	\$ 4,031	\$ 4,748	\$ 72,117

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

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

## For the Three Months Ended September 30, 2010

	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Unallocated	Total
	(dollars in thousands)						
<b>Allowance for credit losses:</b>							
Beginning balance	\$ 34,981	\$ 24,520	\$ 4,925	\$ 13,756	\$ 4,571	\$ 5,293	\$ 88,046
Charge-offs	(1,404)	(3,192)	(1,133)	(765)	(749)	0	(7,243)
Recoveries	82	0	106	4	129	0	321
Provision	4,836	(7,904)	1,126	6,321	308	(165)	4,522
Ending balance	\$ 38,495	\$ 13,424	\$ 5,024	\$ 19,316	\$ 4,259	\$ 5,128	\$ 85,646

**Note 11 Income Taxes**

At September 30, 2011 and December 31, 2010, First Commonwealth had no material unrecognized tax benefits or accrued interest and penalties. If applicable, First Commonwealth will record interest and penalties as a component of noninterest expense. Federal and state tax years 2008 through 2010 were open for examination as of September 30, 2011.

**Note 12 Fair Values of Assets and Liabilities**

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

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

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

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

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

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 12 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 Obligations of U.S. Government issued by Agencies and Sponsored Enterprises, Obligations of States and Political Subdivisions, corporate securities, certain equity securities, FHLB stock, interest rate derivatives that include interest rate swaps and risk participation agreements, certain other real estate owned and certain impaired loans.

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

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

The fair values for the corporate securities, which include our single issue trust preferred securities, were obtained from market data including trade and bid prices.

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

Other investments are comprised of FHLB stock whose fair value is based on its par value. Additional information on FHLB stock is provided in Note 8, Other investments.

Interest rate derivatives included in Level 2 are included in Other assets and Other liabilities and consist of interest rate swaps where there is no significant deterioration in the counterparties (loan customers) credit risk since origination of the interest rate swap. First Commonwealth values its interest rate swap positions using a yield curve by taking market prices/rates for an appropriate set of instruments. The set of instruments currently used to determine the U.S. Dollar yield curve includes cash LIBOR rates from overnight to three months, Eurodollar futures contracts and swap rates from three years to thirty years. These yield curves determine the valuations of interest rate swaps. Interest rate derivatives are further described in Note 13, Derivatives.

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

We also utilize this approach to estimate our own credit risk on derivative liability positions. To date, for those instruments included in Level 2, we have not realized any losses due to a counterparty's inability to pay any net uncollateralized position.

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



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

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. If the inputs used to provide the valuation are unobservable

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 12 Fair Values of Assets and Liabilities (Continued)**

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 pooled trust preferred collateralized debt obligations, non-marketable equity investments and certain interest rate derivatives.

Our pooled trust preferred collateralized debt obligations are collateralized by the trust preferred securities of individual banks, thrifts and bank holding companies in the U.S. There has been little or no active trading in these securities for approximately thirty-six 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 9, Impairment of Investment Securities.

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

For interest rate derivatives included in Level 3, the fair value incorporates credit risk by considering such factors as likelihood of default and expected loss given default based on the credit quality of the underlying counterparties (loan customers).

To date, we have not realized any losses due to a counterparty's inability to pay any net uncollateralized position. However, as the result of deterioration in the counterparties (loan customers) credit quality for certain interest rate derivatives, future amounts previously believed to be collectible under the terms of the interest rate derivative have now been deemed to be uncollectible.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

Note 12 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 September 30, 2011:

	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Securities Available for Sale				
Obligations of U.S. Government Agencies:				
Mortgage Backed Securities Residential	\$ 0	\$ 36,518	\$ 0	\$ 36,518
Obligations of U.S. Government Sponsored Enterprises:				
Mortgage Backed Securities Residential	0	716,330	0	716,330
Mortgage Backed Securities Commercial	0	202	0	202
Other Government-Sponsored Enterprises	0	243,572	0	243,572
Obligations of States and Political Subdivisions	0	465	0	465
Corporate Securities	0	11,367	0	11,367
Pooled Trust Preferred Collateralized Debt Obligations	0	0	24,698	24,698
<b>Total Debt Securities</b>	<b>0</b>	<b>1,008,454</b>	<b>24,698</b>	<b>1,033,152</b>
Equities	440	38	1,570	2,048
<b>Total Securities Available for Sale</b>	<b>440</b>	<b>1,008,492</b>	<b>26,268</b>	<b>1,035,200</b>
Other Investments	0	41,891	0	41,891
Other Assets (a)	0	17,439	0	17,439
<b>Total Assets</b>	<b>\$ 440</b>	<b>\$ 1,067,822</b>	<b>\$ 26,268</b>	<b>\$ 1,094,530</b>
<b>Other Liabilities (a)</b>	<b>\$ 0</b>	<b>\$ 23,763</b>	<b>\$ 0</b>	<b>\$ 23,763</b>
<b>Total Liabilities</b>	<b>\$ 0</b>	<b>\$ 23,763</b>	<b>\$ 0</b>	<b>\$ 23,763</b>

(a) Non-hedging interest rate derivatives

For the nine months ended September 30, 2011, there were no transfers between fair value Levels 1 and 2.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

Note 12 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, 2010:

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

(a) Non-hedging interest rate derivatives

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

Note 12 Fair Values of Assets and Liabilities (Continued)

For the nine month periods ended September 30, 2011 and 2010, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	For the Nine Months Ended September 30, 2011					
	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations	Equity Securities	Other Assets	Total Estimated Fair Value
Balance, beginning of period	\$ 343	\$ 21,376	\$ 26,352	\$ 1,570	\$ 0	\$ 49,641
Total gains or losses						
Included in earnings	4	387	0	0	(4,520)	(4,129)
Included in other comprehensive income	(20)	(98)	809	0	0	691
Purchases, issuances, sales and settlements						
Purchases	0	0	0	0	0	0
Issuances	0	0	0	0	0	0
Sales	(327)	(6,700)	0	0	0	(7,027)
Settlements	0	(3,000)	(2,463)	0	0	(5,463)
Transfers from Level 3	0	(11,965)	0	0	0	(11,965)
Transfers into Level 3	0	0	0	0	4,520	4,520
Balance, end of period	\$ 0	\$ 0	\$ 24,698	\$ 1,570	\$ 0	\$ 26,268

	For the Nine Months Ended September 30, 2010				
	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations	Equity Securities	Total Estimated Fair Value
Balance, beginning of period	\$ 3,600	\$ 18,830	\$ 29,730	\$ 1,570	\$ 53,730
Total gains or losses					
Included in earnings	0	0	(8,688)	0	(8,688)
Included in other comprehensive income	(2,310)	2,411	2,452	0	2,553
Purchases, issuances, sales and settlements					

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

Purchases	0	0	0	0	0
Issuances	0	0	0	0	0
Sales	(941)	0	0	0	(941)
Settlements	0	0	(661)	0	(661)
Transfers into Level 3	0	0	0	0	0
Balance, September 30, 2010	\$ 349	\$ 21,241	\$ 22,833	\$ 1,570	\$ 45,993

For the nine months ended September 30, 2011, \$12.0 million of corporate securities were transferred from Level 3 to Level 2. Corporate securities were transferred from Level 3 to Level 2 based on increased frequency in the

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

Note 12 Fair Values of Assets and Liabilities (Continued)

volume of observable trades. Fair values on these securities at September 30, 2011 were determined based on market data, including trade and bid prices.

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

For the three month periods ended September 30, 2011 and 2010, changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	For the Three Months Ended September 30, 2011					Total Estimated Fair Value
	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations	Equity Securities	Other Assets	
Balance, beginning of quarter	\$ 0	\$ 0	\$ 26,984	\$ 1,570	\$ 0	\$ 28,554
Total gains or losses						
Included in earnings	0	0	0	0	(4,520)	(4,520)
Included in other comprehensive income	0	0	(2,211)	0	0	(2,211)
Purchases, issuances, sales and settlements						
Purchases	0	0	0	0	0	0
Issuances	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Settlements	0	0	(75)	0	0	(75)
Transfers into Level 3	0	0	0	0	4,520	4,520
Balance, end of quarter	\$ 0	\$ 0	\$ 24,698	\$ 1,570	\$ 0	\$ 26,268

	For the Three Months Ended September 30, 2010					Total Estimated Fair Value
	Obligations of States and Political Subdivisions	Corporate Securities	Pooled Trust Preferred Collateralized Debt Obligations	Equity Securities		
Balance, beginning of quarter	\$ 343	\$ 20,574	\$ 28,661	\$ 1,570		\$ 51,148

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

Total gains or losses					
Included in earnings	0	0	(3,974)	0	(3,974)
Included in other comprehensive income	6	667	(1,375)	0	(702)
Purchases, issuances, sales and settlements					
Purchases	0	0	0	0	0
Issuances	0	0	0	0	0
Sales	0	0	0	0	0
Settlements	0	0	(479)	0	(479)
Transfers into Level 3	0	0	0	0	0
Balance, September 30, 2010	\$ 349	\$ 21,241	\$ 22,833	\$ 1,570	\$ 45,993



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 12 Fair Values of Assets and Liabilities (Continued)**

For the three months ended September 30, 2011 and 2010, there were no transfers between levels of fair value for available for sale securities.

Losses of \$4.0 million included in earnings for the three month period ended September 30, 2010, are attributable to the change in realized gains (losses) related to assets held at September 30, 2010. These amounts are reported in the lines *Net impairment losses* in the Condensed Consolidated Statements of Income.

The table below presents the balances of assets measured at fair value on a non-recurring basis at September 30, 2011:

	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(dollars in thousands)			
Impaired loans	\$ 0	\$ 100,556	\$ 35,298	\$ 135,854
Other real estate owned	0	34,564	32	34,596
<b>Total Assets</b>	<b>\$ 0</b>	<b>\$ 135,120</b>	<b>\$ 35,330</b>	<b>\$ 170,450</b>

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

	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(dollars in thousands)			
Impaired loans	\$ 0	\$ 78,967	\$ 26,715	\$ 105,682
Other real estate owned	0	24,871	10	24,881
<b>Total Assets</b>	<b>\$ 0</b>	<b>\$ 103,838</b>	<b>\$ 26,725</b>	<b>\$ 130,563</b>

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

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

The fair value for other real estate owned is determined by either an independent market based appraisal less costs to sell or an executed sales agreement and is classified as Level 2. Other real estate owned has a book cost of \$33.3 million as of September 30, 2011 and consisted primarily of a Pennsylvania based manufacturing plant with related real estate, an office building in western Pennsylvania and a parcel of land in Florida. We review whether events and circumstances subsequent to a transfer to other real estate owned have occurred that indicate the balance of those assets may not be recoverable. If events and circumstances indicate further impairment we will record a charge to the extent that the carrying value of the assets exceed their fair values, less cost to sell, as determined by valuation techniques appropriate in the circumstances.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 12 Fair Values of Assets and Liabilities (Continued)**

Certain other assets and liabilities, including goodwill and core deposit intangibles, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. A goodwill impairment test for First Commonwealth was completed as of September 30, 2011. Based on this analysis, the fair value of First Commonwealth exceeded its book value. Additional information related to this measurement is provided in Note 14, Goodwill. There were no other assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2011.

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

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

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

**Securities:** Fair values for securities available for sale and securities held to maturity are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Pooled trust preferred collateralized debt obligations values are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. These valuations incorporate certain assumptions and projections in determining the fair value assigned to each instrument. The carrying value of Other investments, which includes FHLB stock, is considered a reasonable estimate of fair value.

**Loans:** The fair values of all loans are estimated by discounting the estimated future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality adjusted for past due and nonperforming loans which is not an exit price under FASB ASC Topic 820, Fair Value Measurements and Disclosures. At September 30, 2011, the Company completed a Step 2 goodwill impairment analysis which incorporated an exit price for loans under FASB ASC Topic 820 of \$3.6 billion.

**Off-balance sheet instruments:** Many of First Commonwealth's off-balance sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon; therefore, the commitment amounts do not necessarily represent future cash requirements. FASB ASC Topic 460, Guarantees clarified that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The carrying amount and fair value for standby letters of credit was \$0.2 million at September 30, 2011 and \$0.1 million at December 31, 2010. See Note 6, Commitments and Contingent Liabilities, 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



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 12 Fair Values of Assets and Liabilities (Continued)**

their fair values at the report date. Also, fair values of fixed rate time deposits for both periods are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities.

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

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

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

	September 30, 2011		December 31, 2010	
	Carrying Value (a)	Estimated Fair Value	Carrying Value (a)	Estimated Fair Value
(dollars in thousands)				
<b>Financial Assets</b>				
Cash and due from banks	\$ 84,810	\$ 84,810	\$ 69,854	\$ 69,854
Interest-bearing bank deposits	5,036	5,036	4	4
Securities available for sale	1,035,200	1,035,200	967,715	967,715
Other investments	41,891	41,891	48,859	48,859
Loans	3,973,723	4,023,037	4,218,083	4,213,293
<b>Financial Liabilities</b>				
Deposits	\$ 4,484,878	\$ 4,390,910	\$ 4,617,852	\$ 4,560,070
Short-term borrowings	173,779	173,792	187,861	182,931
Long-term debt	72,709	74,797	98,748	102,038
Subordinated debt	105,750	67,592	105,750	86,870

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

**Note 13 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 fair

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 13 Derivatives (Continued)**

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

We have five 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 loss for the credit exposure, was recognized in earnings at the time of the transaction.

A credit value adjustment of \$6.4 million was recorded for credit risk on an aggregate notional amount outstanding of \$198.8 million for interest rate derivatives and \$126.9 million of risk participation agreements at September 30, 2011. Of the total \$6.4 million credit value adjustment, \$4.5 million relates to mark-to-market adjustments on two interest rate swaps as a result of deterioration in the credit risk of the counterparties (loan customers), which resulted in future amounts previously believed to be collectible under the terms of the interest rate swap to be deemed uncollectible. A credit value adjustment of \$0.7 million was recorded for credit risk on an aggregate notional amount outstanding of \$180.4 million for interest rate derivatives and \$125.7 million for risk participation agreements at December 31, 2010. Of the existing risk participation agreements, \$22.2 million and \$22.5 million was participated to other financial institutions at September 30, 2011 and December 31, 2010, respectively. The fair value of our derivatives is included in a table in Note 12 Fair Values of Assets and Liabilities, in the line items Other assets and Other liabilities.

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

	<b>For the Three Months Ended September 30, 2011</b>		<b>For the Nine Months Ended September 30, 2011</b>	
	<b>2010</b>		<b>2010</b>	
	<b>(dollars in thousands)</b>			
<b>Non-hedging interest rate derivatives:</b>				
Decrease in other income	\$ (5,108)	\$ (542)	\$ (5,643)	\$ (836)

**Note 14 Goodwill**

IASB ASC Topic 350, Intangibles - Other requires that goodwill be reviewed annually, or more frequently if circumstances indicate that it might be impaired, by comparing the fair value of the goodwill to its recorded value, or carrying value. If the carrying value of goodwill exceeds its fair value, an impairment charge must be recorded.

We consider First Commonwealth Financial Corporation to be one reporting unit. The carrying amount of goodwill as of September 30, 2011 and December 31, 2010 was \$159.9 million. No impairment charges on goodwill or other intangible assets were incurred in 2011 or 2010.





**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 14 Goodwill (Continued)**

We test goodwill for impairment as of November 30<sup>th</sup> each year and again at any quarter-end if any material events occur during a quarter that may affect goodwill. We have evaluated our goodwill for impairment on a quarterly basis since September 30, 2009 as a result of the negative impact other-than-temporary impairment charges and credit losses in our loan portfolio have had on our earnings and stock price. These losses along with ongoing uncertainty in the general economy and the financial markets, which may continue to negatively impact our performance and stock price, resulted in a need to evaluate our goodwill. There has been no change in our annual test date of November 30<sup>th</sup>.

Goodwill is tested for impairment using a two-step process that begins with an estimation of fair value as of September 30, 2011.

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

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other variables. Our Step 1 test for potential goodwill impairment incorporates both income and market based analyses. The income analysis used in our Step 1 incorporates estimated cash flows which extend five years into the future and, by their nature, are difficult to estimate over such an extended time-frame. Factors that may significantly affect the estimates used in our Step 1 income analysis include, but are not limited to, balance sheet growth assumptions, credit losses in our investment and loan portfolios, competitive pressures in our market area, changes in customer base and customer product preferences, changes in revenue growth trends, cost structure, changes in discount rates, conditions in the banking sector and general economic variables.

The market approach used in the Step 1 test calculates the change of control price a market participant would pay by adding a change of control premium to the current trading value of the Company.

As of September 30, 2011, our Step 1 goodwill analysis indicated that our fair value was approximately 20% below book value. Therefore in accordance with ASC Topic 350-20-35-8, a Step 2 analysis was undertaken.

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

As a result of the Step 2 analysis, it was determined that the fair value of our goodwill exceeded its carrying value by approximately 17% and therefore no impairment charge was required.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 14 Goodwill (Continued)**

As of September 30, 2011, goodwill was not considered impaired; however, changing economic conditions that may adversely affect our performance, fair value of our assets and liabilities, or stock price could result in impairment, which could adversely affect earnings in future periods. Management will continue to monitor events that could impact this conclusion in the future.

**Note 15 New Accounting Pronouncements**

In April 2011, FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The Update specifies that in order to constitute a restructuring as a troubled debt restructuring, a creditor must conclude that the restructuring constitutes a concession and that the debtor is experiencing financial difficulties. The amendment clarifies the guidance on a creditor's evaluation of whether a concession is granted, whether a debtor is experiencing financial difficulties, and whether the creditor is precluded from using the effective interest rate test when evaluating whether the restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Adoption of this Update will require additional disclosure under ASU No 2010-20, *Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The adoption of this ASU did not have a material impact on First Commonwealth's financial condition or results of operations. There were no transition troubled debt restructured loans resulting from the issuance of this guidance as management's evaluation of restructured loans for periods ended March 31, 2011 and June 30, 2011, previously incorporated the considerations of the Update.

In April 2011, the FASB issued ASU 2011-03, *Transferring and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements*, which removes from the assessment of effective control the criterion of 1). the measure requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and 2). the collateral maintenance implementation guidance related to that measure. All other criteria applicable to effective control remain unchanged by the amendments in the Update. This Update is effective for fiscal periods beginning on or after December 15, 2011. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on First Commonwealth's financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This Update changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. As a result, the highest and best use and valuation premise concept should be applied. This Update also amends particular principles or requirements for measuring fair value or disclosing relevant information. For example, the amendment allows for financial assets with applicable market and credit risk managed on a basis of net exposure to be excluded from the requirements of Topic 820. This Update is effective for interim and annual periods beginning after December 15, 2011. The guidance is prospective and management does not believe the adoption of this ASU will have a significant 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)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 15 New Accounting Pronouncements (Continued)

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*, under which an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income, in either a single continuous statement of comprehensive income or in two separate but consecutive statements. If a separate statement is preferred, this statement should immediately follow the statement of net income and include components of other comprehensive income and a total for these items along with total comprehensive income. This Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on First Commonwealth's financial condition or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. This Update provides an entity with the option to assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Conversely, if the opposite conclusion is reached, then the first step of the two-step approach must be performed. The Update provides examples of events and circumstances that an entity should consider in performing its qualitative assessment. This Update is effective for fiscal years beginning after December 15, 2011. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on First Commonwealth's financial condition or results of operations.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

*Results of Operations*

This discussion and the related financial data are presented to assist in the understanding and evaluation of the consolidated financial condition and the results of operations of First Commonwealth Financial Corporation including its subsidiaries ( First Commonwealth ) for the nine months ended September 30, 2011 and 2010, and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Form 10-Q.

**Forward-Looking Statements**

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

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

continued weakness in economic and business conditions, both nationally and in our markets, which could cause deterioration in credit quality, a further reduction in demand for credit and/or a further decline in real estate values;

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, which could result in increases in our provision for credit losses and related expenses;

fluctuations in interest rates and market prices, which could reduce our net interest margin and asset valuations and increase our expenses;

further declines in the valuations of real estate, which could negatively affect the creditworthiness of our borrowers and the value of collateral securing our loans;

the assumptions used in calculating the appropriate amount to be placed into our allowance for credit losses may prove to be inaccurate;

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

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

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

changes in accounting standards and compliance requirements may have an adverse affect on our operating results and financial condition;

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

*Results of Operations (Continued)*

**Forward-Looking Statements (Continued)**

competitive pressures among depository and other financial institutions, some of whom may have greater financial resources or more attractive product or service offerings, may adversely affect growth or profitability of our products and services; and

other risks and uncertainties described in this report and in the other reports that we file with the Securities and Exchange Commission, including our 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.

**Explanation of Use of Non-GAAP Financial Measure**

In addition to the results of operations presented in accordance with generally accepted accounting principles ( GAAP ), First Commonwealth management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis. We believe this non-GAAP financial measure provides information useful to investors in understanding our underlying operational performance and our business and performance trends as it facilitates comparison with the performance of others in the financial services industry. Although we believe that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Condensed Consolidated Statements of Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on page 52 for the nine month periods ended September 30, 2011 and 2010.

**Results of Operations**

**Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**

**Net Income**

For the nine months ended September 30, 2011, First Commonwealth had net income of \$21.0 million, or \$0.20 per share, compared to net income of \$11.0 million or \$0.12 per share in the nine months ended September 30, 2010. Net income for 2010 was negatively impacted by the level of provision for credit losses and other-than-temporary impairment charges. Results for 2011 reflect improvement in both of these areas as the provision for credit losses in the first nine months of 2011 was \$29.9 million, a decrease of \$23.6 million or 44% compared to \$53.6 million recorded in the comparable period of 2010. There were no other-than-temporary impairment charges for the nine months ended September 30, 2011, compared to \$9.2 million recorded in the same period in 2010.

Other items affecting results for the nine months ended September 30, 2011 include a decrease of \$17.7 million in net interest income on a fully taxable equivalent basis and an increase of \$0.4 million in noninterest expense compared to the same period as last year, despite a \$2.2 million increase in the loss on sale or write-down of assets and a \$2.1 million increase in collection and repossession expense. Noninterest income, excluding net impairment losses, net securities gains, gain on sale of assets and credit risk on interest rate swaps, increased \$1.5 million.



**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

Net interest income, on a fully taxable equivalent basis, decreased \$17.7 million, or 11%, in the first nine months of 2011 as compared to the same period in 2010. The decrease in net interest income can be attributed to a \$512.3 million decline in average interest-earning assets offset by a \$658.7 million decrease in average interest-bearing liabilities. Positively affecting net interest income was a \$146.4 million increase in average net free funds during the nine months ended September 30, 2011 as compared to the same period in 2010. Average net free funds are the excess of average noninterest-bearing demand deposits, average other noninterest-bearing liabilities and average shareholders' equity over nonearning assets. Net interest margin, on a fully taxable equivalent basis, was 3.81% for the nine months ended September 30, 2011 compared to 3.89% for the nine months ended September 30, 2010.

Comparing the first nine months of 2011 with the same period in 2010, interest income, on a fully taxable equivalent basis, decreased \$33.1 million, or 16%. Lower levels of interest-earning assets resulted in \$21.8 million of the decrease in interest income while lower interest rates contributed \$11.3 million of the decrease. For the nine months ended September 30, 2011, average investment securities decreased \$55.0 million and average loans decreased \$451.3 million. The taxable equivalent yield on interest-earning assets was 4.67% for the nine months ended September 30, 2011, a decrease of 36 basis points from the 5.03% for the same period in 2010. The decline is due to repricing of our existing variable rate assets as well as lower rates available on new investments and loans.

Interest expense, in the first nine months of 2011 as compared to the same period in 2010, decreased \$15.4 million or 32%, primarily due to a 29 basis point decline on rates paid for interest-bearing liabilities. The cost of interest-bearing liabilities was 1.04% and 1.33% at September 30, 2011 and 2010, respectively. Lower interest rates resulted in a decrease in interest expense of \$8.4 million, while a decrease in interest-bearing liabilities provided for a decrease in interest expense of \$7.0 million. Interest-bearing liabilities decreased an average of \$658.7 million, including, \$428.1 million decrease in average short-term borrowings, \$240.8 million decrease in average time deposits and \$63.3 million decrease in average long-term debt, offset by a \$73.5 million average increase in lower costing transaction and savings deposits.

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

	Nine Months Ended September 30,	
	2011	2010
	(dollars in thousands)	
Interest income per Condensed Consolidated Statements of Income	\$ 175,058	\$ 204,997
Adjustment to fully taxable equivalent basis	4,227	7,402
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	179,285	212,399
Interest expense	32,824	48,207
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	\$ 146,461	\$ 164,192





**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 on a fully taxable equivalent basis for the nine months ended September 30:

	Average Balance Sheets and Net Interest Income Analysis					
	2011			2010		
	Average Balance	Income/ Expense (a)	Yield or Rate	Average Balance	Income/ Expense (a)	Yield or Rate
	(dollars in thousands)					
<b>Assets</b>						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 34,060	\$ 63	0.25%	\$ 40,036	\$ 77	0.26%
Tax-free investment securities	6,331	320	6.76	144,922	7,248	6.69
Taxable investment securities	1,021,795	25,416	3.33	938,233	29,383	4.19
Loans, net of unearned income (b)(c)	4,073,871	153,486	5.04	4,525,149	175,691	5.19
<b>Total interest-earning assets</b>	<b>5,136,057</b>	<b>179,285</b>	<b>4.67</b>	<b>5,648,340</b>	<b>212,399</b>	<b>5.03</b>
Noninterest-earning assets:						
Cash	74,736			77,027		
Allowance for credit losses	(78,042)			(99,649)		
Other assets	592,277			591,133		
<b>Total noninterest-earning assets</b>	<b>588,971</b>			<b>568,511</b>		
<b>Total Assets</b>	<b>\$ 5,725,028</b>			<b>\$ 6,216,851</b>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$ 603,980	\$ 392	0.09%	\$ 620,231	\$ 591	0.13%
Savings deposits (d)	1,867,973	5,725	0.41	1,778,204	9,642	0.72
Time deposits	1,385,857	20,609	1.99	1,626,660	28,608	2.35
Short-term borrowings	166,094	551	0.44	594,182	1,752	0.39
Long-term debt	181,261	5,547	4.09	244,547	7,614	4.16
<b>Total interest-bearing liabilities</b>	<b>4,205,165</b>	<b>32,824</b>	<b>1.04</b>	<b>4,863,824</b>	<b>48,207</b>	<b>1.33</b>

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

Noninterest-bearing liabilities and shareholders' equity:

Noninterest-bearing demand deposits (d)	709,536		640,911	
Other liabilities	48,775		40,807	
Shareholders' equity	761,552		671,309	
Total noninterest-bearing funding sources	1,519,863		1,353,027	
Total Liabilities and Shareholders' Equity	\$ 5,725,028		\$ 6,216,851	
Net Interest Income and Net Yield on Interest-Earning Assets		\$ 146,461	3.81%	\$ 164,192 3.89%

- (a) Income on interest-earning assets has been computed on a fully taxable 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 nine months ended September 30, 2011 compared with September 30, 2010:

	Analysis of Changes in Net Interest Income		
	Total Change	Change Due to Volume	Change Due to Rate (a)
	(dollars in thousands)		
<b>Interest-earning assets:</b>			
Interest-bearing deposits with banks	\$ (14)	\$ (12)	\$ (2)
Tax-free investment securities	(6,928)	(6,935)	7
Taxable investment securities	(3,967)	2,619	(6,586)
Loans	(22,205)	(17,518)	(4,687)
<b>Total interest income (b)</b>	<b>(33,114)</b>	<b>(21,846)</b>	<b>(11,268)</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(199)	(16)	(183)
Savings deposits	(3,917)	483	(4,400)
Time deposits	(7,999)	(4,233)	(3,766)
Short-term borrowings	(1,201)	(1,249)	48
Long-term debt	(2,067)	(1,969)	(98)
<b>Total interest expense</b>	<b>(15,383)</b>	<b>(6,984)</b>	<b>(8,399)</b>
<b>Net interest income</b>	<b>\$ (17,731)</b>	<b>\$ (14,862)</b>	<b>\$ (2,869)</b>

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

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

**Provision for Credit Losses**

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

The provision for credit losses for the nine months ended September 30, 2011 totaled \$29.9 million, a decrease of \$23.6 million as compared to the same period in 2010.



**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)**

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

	September 30, 2011		September 30, 2010	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	\$ 196	1%	\$ 7,805	15%
Real estate construction	11,984	40	36,574	68
Residential real estate	3,770	12	2,696	5
Commercial real estate	12,443	42	3,495	7
Loans to individuals	1,708	6	1,796	3
Unallocated	(197)	(1)	1,186	2
<b>Total</b>	<b>\$ 29,904</b>	<b>100%</b>	<b>\$ 53,552</b>	<b>100%</b>

For 2011, the provision for credit losses related to real estate construction loans was partly due to new appraisals on a student housing project in eastern Pennsylvania, a land development loan in eastern Pennsylvania and a condominium construction project in Florida. Additional provisions totaling \$7.7 million were also recorded for three real estate construction projects in eastern Pennsylvania.

The provision for commercial real estate loans totaled \$12.4 million in the first nine months of 2011, primarily related to a commercial office building, a commercial real estate development and a retail strip development.

The decline in the unallocated provision can be attributed to the decrease in the level of outstanding loans.

Net credit losses were \$29.0 million in the first nine months of 2011 compared to \$49.5 million for the same period in 2010. Net credit losses in 2011 included \$14.6 million in charge-offs related to real estate construction loans, of which \$9.6 million related to five loans currently in nonaccrual status, and \$1.5 million related to a loan for which real estate collateral was transferred to other real estate owned during the period. Commercial real estate charge-offs totaled \$6.9 million for the period, of which \$5.0 million related to three real estate loans that were transferred to other real estate owned.

The allowance for credit losses was \$72.1 million or 1.81% of total loans outstanding at September 30, 2011 compared to \$71.2 million or 1.69% at December 31, 2010 and \$85.6 million or 1.99% at September 30, 2010. The provision is a result of management's assessment of credit quality statistics and other factors that would have an impact on probable losses in the loan portfolio and the methodology used for determination of the adequacy of the allowance for credit losses. The change in the allowance for credit losses is consistent with estimated losses within the loan portfolio determined by factors including certain loss events, portfolio migration analysis, historical loss experience, delinquency trends, deterioration in collateral values and volatility in the economy. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at September 30, 2011.



**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)

Below is an analysis of the consolidated allowance for credit losses for the nine months ended:

	September 30, 2011	December 31, 2010 (dollars in thousands)	September 30, 2010
Balance, beginning of period	\$ 71,229(a)	\$ 118,725(a)	\$ 81,639(a)
Loans charged off:			
Commercial, financial, agricultural and other	3,642	21,442	2,949
Real estate construction	14,570	37,770	41,374
Residential real estate	2,686	3,682	3,673
Commercial real estate	6,918	1,467	1,824
Loans to individuals	2,332	2,772	2,695
Total loans charged off	30,148	67,133	52,515
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	335	2,336	2,270
Real estate construction	0	0	0
Residential real estate	118	230	154
Commercial real estate	239	126	119
Loans to individuals	440	413	427
Total recoveries	1,132	3,105	2,970
Net credit losses	29,016	64,028	49,545
Provision charged to expense	29,904	16,532	53,552
Balance, end of period	\$ 72,117	\$ 71,229	\$ 85,646

(a) The balance at the beginning of the period represents December 31, 2010, March 31, 2010 and December 31, 2009, respectively. 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)Noninterest Income

The following table presents the components of noninterest income for the nine months ended September 30:

	2011	2010
	(dollars in thousands)	
<b>Noninterest Income</b>		
Trust income	\$ 5,085	\$ 4,378
Service charges on deposit accounts	11,010	13,057
Insurance and retail brokerage commissions	4,876	5,328
Income from bank owned life insurance	4,158	3,935
Income from other real estate owned	1,439	0
Card related interchange income	8,895	7,695
Other income	7,914	7,532
<b>Subtotal</b>	<b>43,377</b>	<b>41,925</b>
Net securities gains	2,185	2,412
Net impairment losses	0	(9,150)
Gain on sale of assets	2,272	628
Credit risk on interest rate swaps	(5,643)	(836)
<b>Total noninterest income</b>	<b>\$ 42,191</b>	<b>\$ 34,979</b>

Total noninterest income for the nine months ended September 30, 2011 increased \$7.2 million, or 21%, compared to the same period in 2010, primarily due to a decline in net impairment losses, net security gains and an increase in gain on sale of assets. Also affecting noninterest income for the period is the recognition of a \$5.6 million charge related to credit risk on interest rate swaps, an increase of \$4.8 million from the prior period. This charge is the result of deterioration in the underlying credit of the counterparty. Noninterest income, excluding net security gains, net impairment losses, gain on sale of assets and credit risk on interest rate swaps, increased \$1.5 million.

There were no impairment losses recorded for the nine month period ended September 30, 2011 compared to \$9.2 million for the nine months ended September 30, 2010. The decreased level of impairment charges on pooled trust preferred securities can be attributed to a decline in the level of interest deferrals and payment defaults by the underlying banks in these investments as well as the effect of actual and projected interest deferral cures.

Net securities gains decreased \$0.2 million, or 9%, for the nine months ended September 30, 2011 as compared to the same period of 2010.

Trust income increased \$0.7 million, or 16%, for the first nine months of 2011, as compared to the same period in 2010, primarily due to an increase in the number of accounts under management.

Service charges on deposit accounts decreased \$2.0 million, or 16%, as the result of a \$2.3 million decline in overdraft fee income caused by changes in consumer behavior as well as the implementation of Regulation E, which was effective for new accounts on July 1, 2010 and existing

accounts on August 15, 2010. Card related interchange income increased \$1.2 million, or 16%, due to a higher consumer utilization of this product and new accounts. Card related interchange income includes income on debit, credit and ATM cards that are issued to consumers and/or businesses.

**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)****Noninterest Income (Continued)**

Compared to the same period in 2010, gain on sale of assets increased \$1.6 million for the nine months ended September 30, 2011. This increase is primarily the result of a \$1.0 million gain recognized from the sale of a private equity investment.

**Noninterest Expense**

The following table presents the components of noninterest expense for the nine months ended September 30:

	2011	2010
	(dollars in thousands)	
<b>Noninterest Expense</b>		
Salaries and employee benefits	\$ 63,092	\$ 63,991
Net occupancy expense	10,733	10,749
Furniture and equipment expense	9,407	9,350
Data processing expense	4,482	4,282
Pennsylvania shares tax expense	4,046	3,982
Intangible amortization	1,163	1,641
Collection and repossession expense	5,003	2,926
Other professional fees and services	3,930	2,947
FDIC insurance	4,260	5,989
Loan processing fees	1,832	1,199
Other operating expenses	15,628	18,303
<b>Subtotal</b>	<b>123,576</b>	<b>125,359</b>
Loss on sale or write-down of assets	4,674	2,489
<b>Total noninterest expense</b>	<b>\$ 128,250</b>	<b>\$ 127,848</b>

Total noninterest expense for the nine months ended September 30, 2011 increased \$0.4 million, or 0.3%, compared to the same period in 2010. Noninterest expense, excluding loss on sale or write-downs of assets, decreased \$1.8 million.

Salaries and employee benefits decreased \$0.9 million, or 1%, for the nine months ended September 30, 2011 compared with the same period in 2010. The decrease is primarily attributable to a reduction in staffing levels as full time equivalent staff decreased to 1,479 at September 30, 2011 as compared to 1,584 at September 30, 2010.

Collection and repossession expense increased \$2.1 million, or 71%, as a result of legal and consulting expenses related to the resolution of problem credits.

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

Loss on sale or write-down of other assets increased \$2.2 million, or 88%, for the nine months ended September 30, 2011 compared to the same period in 2010. This loss is primarily the result of a write-down to fair value of an OREO property as the result of an updated appraisal.

Other operating expenses decreased \$2.7 million, or 15%, primarily as a result of declines in the reserve for unfunded commitments for construction 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)**Three months ended September 30, 2011 compared to three months ended September 30, 2010**Net Income

For the three months ended September 30, 2011, First Commonwealth had net income of \$8.3 million, or \$0.08 per share, compared to net income of \$10.7 million or \$0.11 per share in the three months ended September 30, 2010. The decrease in net income is primarily the result of lower net interest income and a higher provision for credit losses.

Net Interest Income

Net interest income, on a fully taxable equivalent basis, decreased \$4.3 million, or 8%, in the third quarter of 2011 as compared to the same period in 2010. The decrease in net interest income resulted from a \$321.7 million decrease in average interest-earning assets offset by a \$425.2 million decrease in average interest-bearing liabilities. Positively affecting net interest income was a \$103.5 million increase in average net free funds for the three months ended September 30, 2011 as compared to the same period in 2010. Net interest margin, on a fully taxable equivalent basis, was 3.81% and 3.90% for the three month periods ended September 30, 2011 and 2010, respectively.

Comparing the third quarter of 2011 with the same period in 2010, interest income, on a fully taxable equivalent basis, decreased \$9.1 million, or 13%. Lower levels of interest-earning assets resulted in \$5.3 million of the decrease in interest income while lower interest rates contributed \$3.8 million of the decrease. The decrease in average earning assets can be attributed to a decrease in average loans of \$396.9 million. The taxable equivalent yield on interest-earning assets was 4.61% for the three months ended September 30, 2011, a decrease of 39 basis points from the 5.00% for the same period in 2010.

Interest expense, in the third quarter of 2011 as compared to the same period in 2010, decreased \$4.8 million or 32%, primarily due to a 33 basis point decline on rates paid for interest-bearing liabilities. The cost of interest-bearing liabilities was .97% and 1.30% at September 30, 2011 and 2010, respectively. Lower interest rates resulted in a decrease in interest expense of \$2.4 million, while a decrease in interest-bearing liabilities also provided for a decrease in interest expense of \$2.4 million. Interest-bearing liabilities decreased an average of \$425.2 million, including, \$97.9 million decrease in average short-term borrowings, \$305.0 million decrease in average time deposits and \$55.2 million decrease in average long-term debt, offset by a \$32.9 million increase in average lower costing transaction and savings deposits.

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

	<b>Three Months Ended September 30, 2011                  2010 (dollars in thousands)</b>	
Interest income per Condensed Consolidated Statements of Income	\$ 57,600	\$ 65,982
Adjustment to fully taxable equivalent basis	1,288	1,965
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	58,888	67,947
Interest expense	10,120	14,886

Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	\$ 48,768	\$ 53,061
---	-----------	-----------

**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 on a fully taxable equivalent basis, for the three months ended September 30:

	Average Balance Sheets and Net Interest Income Analysis					
	2011			2010		
	Average Balance	Income/Expense (a)	Yield or Rate	Average Balance	Income/Expense (a)	Yield or Rate
	(dollars in thousands)					
<b>Assets</b>						
Interest-earning assets:						
Interest-bearing deposits with banks	\$ 41,903	\$ 27	0.26%	\$ 6,650	\$ 4	0.24%
Tax-free investment securities	755	14	7.36	67,459	1,109	6.53
Taxable investment securities	1,037,103	8,455	3.23	930,423	9,206	3.93
Loans, net of unearned income (b)(c)	3,993,225	50,392	5.01	4,390,123	57,628	5.21
<b>Total interest-earning assets</b>	<b>5,072,986</b>	<b>58,888</b>	<b>4.61</b>	<b>5,394,655</b>	<b>67,947</b>	<b>5.00</b>
Noninterest-earning assets:						
Cash	77,206			78,412		
Allowance for credit losses	(78,033)			(91,247)		
Other assets	599,141			591,115		
<b>Total noninterest-earning assets</b>	<b>598,314</b>			<b>578,280</b>		
<b>Total Assets</b>	<b>\$ 5,671,300</b>			<b>\$ 5,972,935</b>		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing demand deposits (d)	\$ 610,570	\$ 123	0.08%	\$ 629,307	\$ 175	0.11%
Savings deposits (d)	1,868,885	1,796	0.38	1,817,235	2,773	0.61
Time deposits	1,296,831	6,178	1.89	1,601,826	9,246	2.29
Short-term borrowings	167,969	188	0.44	265,855	284	0.42
Long-term debt	179,033	1,835	4.07	234,255	2,408	4.08
<b>Total interest-bearing liabilities</b>	<b>4,123,288</b>	<b>10,120</b>	<b>0.97</b>	<b>4,548,478</b>	<b>14,886</b>	<b>1.30</b>



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

Noninterest-bearing liabilities and shareholders' equity:			
Noninterest-bearing demand deposits (d)	726,895		663,947
Other liabilities	51,667		46,727
Shareholders' equity	769,450		713,783
Total noninterest-bearing funding sources	1,548,012		1,424,457
Total Liabilities and Shareholders' Equity	\$ 5,671,300		\$ 5,972,935
Net Interest Income and Net Yield on Interest-Earning Assets		\$ 48,768    3.81%	\$ 53,061    3.90%

- (a) Income on interest-earning assets has been computed on a fully taxable 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 months ended September 30, 2011 compared with September 30, 2010:

	<b>Analysis of Changes in Net Interest Income</b>		
	<b>Total Change</b>	<b>Change Due to Volume</b>	<b>Change Due to Rate (a)</b>
	(dollars in thousands)		
<b>Interest-earning assets:</b>			
Interest-bearing deposits with banks	\$ 23	\$ 21	\$ 2
Tax-free investment securities	(1,095)	(1,098)	3
Taxable investment securities	(751)	1,057	(1,808)
Loans	(7,236)	(5,212)	(2,024)
<b>Total interest income (b)</b>	<b>(9,059)</b>	<b>(5,232)</b>	<b>(3,827)</b>
<b>Interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(52)	(5)	(47)
Savings deposits	(977)	79	(1,056)
Time deposits	(3,068)	(1,760)	(1,308)
Short-term borrowings	(96)	(104)	8
Long-term debt	(573)	(568)	(5)
<b>Total interest expense</b>	<b>(4,766)</b>	<b>(2,358)</b>	<b>(2,408)</b>
<b>Net interest income</b>	<b>\$ (4,293)</b>	<b>\$ (2,874)</b>	<b>\$ (1,419)</b>

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

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

**Provision for Credit Losses**

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



**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)

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

	September 30, 2011		September 30, 2010	
	Dollars	Percentage	Dollars	Percentage
	(dollars in thousands)			
Commercial, financial, agricultural and other	\$ (3,975)	(57)%	\$ 4,836	107%
Real estate construction	4,237	61	(7,904)	(175)
Residential real estate	750	11	1,126	25
Commercial real estate	5,165	73	6,321	140
Loans to individuals	820	12	308	7
Unallocated	(22)	0	(165)	(4)
<b>Total</b>	<b>\$ 6,975</b>	<b>100%</b>	<b>\$ 4,522</b>	<b>100%</b>

The provision for credit losses for the three months ended September 30, 2011 totaled \$7.0 million, an increase of \$2.5 million as compared to the same period in 2010. The significant components of the third quarter 2011 provision for credit losses related to two real estate construction loans which were placed in nonaccrual during the quarter.

Net credit losses were \$10.0 million in the three months ended September 30, 2011 compared to \$6.9 million for the same period in 2010. Net credit losses during the three month period included \$6.5 million in charge-offs for real estate construction loans, of which \$5.1 million related to one loan relationship currently in nonaccrual status. Commercial real estate charge-offs totaled \$1.3 million for the period of which \$0.5 million related to two real estate loans that were transferred to other real estate owned.

**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)

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

	September 30, 2011	June 30, 2011 (dollars in thousands)	September 30, 2010
Balance, beginning of period	\$ 75,166(a)	\$ 76,792(a)	\$ 88,046(a)
Loans charged off:			
Commercial, financial, agricultural and other	685	1,997	1,404
Real estate construction	6,522	3,049	3,192
Residential real estate	986	596	1,133
Commercial real estate	1,343	4,809	765
Loans to individuals	810	743	749
Total loans charged off	10,346	11,194	7,243
Recoveries of loans previously charged off:			
Commercial, financial, agricultural and other	74	157	82
Real estate construction	0	0	0
Residential real estate	22	77	106
Commercial real estate	75	88	4
Loans to individuals	151	134	129
Total recoveries	322	456	321
Net credit losses	10,024	10,738	6,922
Provision charged to expense	6,975	9,112	4,522
Balance, end of period	\$ 72,117	\$ 75,166	\$ 85,646

(a) The balance at the beginning of the period represents June 30, 2011, March 31, 2011 and June 30, 2010, respectively. 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)Noninterest Income

The following table presents the components of noninterest income for the three months ended September 30:

	2011	2010
	(dollars in thousands)	
<b>Noninterest Income</b>		
Trust income	\$ 1,603	\$ 1,486
Service charges on deposit accounts	3,836	4,302
Insurance and retail brokerage commissions	1,698	1,600
Income from bank owned life insurance	1,411	1,377
Income from other real estate owned	1,024	0
Card related interchange income	3,053	2,689
Other income	2,492	2,612
<b>Subtotal</b>	<b>15,117</b>	<b>14,066</b>
Net securities gains	0	1,430
Net impairment losses	0	(4,290)
Gain on sale of assets	790	215
Credit risk on interest rate swaps	(5,108)	(542)
<b>Total noninterest income</b>	<b>\$ 10,799</b>	<b>\$ 10,879</b>

Total noninterest income for the three months ended September 30, 2011 decreased \$0.1 million or 1%, compared to the same period in 2010, primarily due to a decline in net impairment losses and securities gains and an increase in gain on sale of assets. Noninterest income, excluding net securities gains, net impairment losses, gain on sale of assets and credit risk on interest rate swaps, increased \$1.1 million.

Contributing to the decrease in noninterest income is the recognition of a \$5.1 million charge related to credit risk on interest rate swaps resulting from the deterioration of the underlying credit of the counterparty. This change represents an increase of \$4.6 million compared to the same period in 2010.

There were no impairment losses recorded for the three month period ended September 30, 2011 compared to \$4.3 million for the three months ended September 30, 2010. The decreased level of impairment charges on pooled trust preferred securities can be attributed to a decline in the level of interest deferrals and payment defaults by the underlying banks in these investments.

Trust income increased \$0.1 million, or 8%, for the three months ended September 30, 2011 as compared to the same period of 2010.

Service charges on deposit accounts decreased \$0.5 million, or 11%, primarily due to a decline in overdraft fee income as the result of changes in customer behavior and new regulations. Card related interchange income increased \$0.4 million, or 14%, due to a higher consumer utilization of this product and new accounts.

Net securities gains decreased \$1.4 million, as no securities were sold in the third quarter of 2011.



**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)****Noninterest Expense**

The following table presents the components of noninterest expense for the three months ended September 30:

	2011	2010
	(dollars in thousands)	
<b>Noninterest Expense</b>		
Salaries and employee benefits	\$ 20,418	\$ 20,617
Net occupancy expense	3,506	3,317
Furniture and equipment expense	3,092	3,084
Data processing expense	1,533	1,367
Pennsylvania shares tax expense	1,434	1,468
Intangible amortization	384	408
Collection and repossession expense	1,961	1,209
Other professional fees and services	1,706	719
FDIC insurance	1,177	2,014
Loan processing fees	851	441
Other operating expenses	4,900	6,195
<b>Subtotal</b>	<b>40,962</b>	<b>40,839</b>
Loss on sale or write-down of assets	159	92
<b>Total noninterest expense</b>	<b>\$ 41,121</b>	<b>\$ 40,931</b>

Total noninterest expense for the three months ended September 30, 2011 increased \$0.2 million, or 0.5%, compared to the same period in 2010, primarily due to an increase in other professional fees and services and collection and repossession expense, offset by a decrease in FDIC insurance.

Collection and repossession expense increased \$0.8 million, or 62%, as a result of legal and consulting expenses related to the resolution of problem credits.

Other professional fees and services increased \$1.0 million, or 137%, due to an increase in interview and placement fees as well as consulting fees paid during the period. FDIC insurance decreased \$0.8 million, or 42%, due to a change in the second quarter of 2011 in the method by which the FDIC calculates insurance premiums.

**Income Tax**

The provision for income taxes increased \$5.9 million for the nine months ended September 30, 2011, compared to the corresponding period in 2010. The higher provision for income taxes was primarily due to the increase in net income before tax of \$15.9 million to \$26.3 million for the nine months ended September 30, 2011, as compared to income before tax of \$10.4 million for the first nine months of 2010, as well as a decrease in tax-exempt income due to the sale of \$172.4 million of tax-exempt investment securities during 2011 and 2010.

We applied the annual effective tax rate approach to determine the provision for income taxes, which applies an annual forecast of tax expense as a percentage of expected full year income for the nine months ended September 30, 2011 and 2010.

---

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

*Results of Operations (Continued)*

**Income Tax (Continued)**

We generate an annual effective tax rate that is less than the statutory rate of 35% due to benefits resulting from tax-exempt interest, income from bank owned life insurance and tax benefits associated with low income housing tax credits, which are relatively consistent regardless of the level of pretax income. The level of tax benefits that reduce our tax rate below the 35% statutory rate produced an annual effective tax rate of 20.1% for the nine months ending September 30, 2011 and a negative annual effective tax rate of 6.4% for the same period of 2010 due to a relatively low level of annual pretax income.

As of September 30, 2011, our deferred tax assets totaled \$63.7 million. Based on our evaluation as of September 30, 2011, we determined that it is more likely than not that all of these assets will be realized. As a result, we did not record a valuation allowance against these assets. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved forecasts, evaluation of historical earning levels and consideration of potential tax strategies. If future events differ from our current forecasts, we may need to establish a valuation allowance, which could have a material impact on our financial condition and results of operations.

**Liquidity**

Liquidity refers to our ability to meet the cash flow requirements of depositors and borrowers as well as our operating cash needs with cost-effective funding. We generate funds to meet these needs primarily through the core deposit base of First Commonwealth Bank and the maturity or repayment of loans and other interest-earning assets, including investments. During the first nine months of 2011, liquidity provided from the \$244.4 million decrease in loans provided funds used to purchase liquid investments and pay down borrowings, both of which helped mitigate and better manage liquidity and interest rate risk. We also have available unused wholesale sources of liquidity, including overnight federal funds and repurchase agreements, advances from the FHLB of Pittsburgh, borrowings through the discount window at the Federal Reserve Bank ( FRB ) of Cleveland and access to certificates of deposit through brokers.

Liquidity risk arises from the possibility that we may not be able to meet our financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, our Board of Directors has established an Asset and Liability Management Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on limits approved by our Board. This policy designates our Asset/Liability Committee ( ALCO ) as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by our Treasury Department who monitors liquidity using such measures as liquidity coverage ratios, liquidity gap ratios and noncore funding ratios.

In order to increase and diversify our funding sources, we participate in the Certificate of Deposit Account Registry Services ( CDARS ) program and the reciprocal program which allows our depositors to receive expanded FDIC coverage by placing multiple certificates of deposit at other CDARS member banks. As of September 30, 2011, we held \$10.3 million in brokered CDARS certificates of deposits with an average weighted rate of 0.94% and an average original term of 414 days.

An additional source of liquidity is the Federal Reserve Bank ( FRB ) Borrower-in-Custody of Collateral program which enables us to pledge certain loans, not being used as collateral at the FHLB, as collateral for borrowings at the FRB. At September 30, 2011, the collateral value of assets pledged under this program totaled \$675.9 million and there were no amounts outstanding.

**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)**

Additionally, as of September 30, 2011, our maximum borrowing capacity at the Federal Home Loan Bank of Pittsburgh was \$1.1 billion and as of that date amounts used against this capacity included \$70.3 million in outstanding borrowings and \$28.2 million in letter of credit commitments used for pledging public funds.

First Commonwealth Financial Corporation has an unsecured \$15.0 million line of credit with another financial institution and as of September 30, 2011 there are no amounts outstanding on this line. Additionally, we guarantee a \$2.1 million ESOP loan. For this loan we are currently not meeting the debt covenant related to nonperforming loans as a percentage of total loans. We are working with the lender and expect to obtain a modification for the covenant in the fourth quarter.

First Commonwealth's long-term liquidity source is its core deposit base. 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 nine months of 2011, total deposits decreased \$133.0 million. The following table shows a breakdown of the components of First Commonwealth's deposits:

	September 30, 2011	December 31, 2010
Noninterest-bearing deposits	\$ 769,178	\$ 706,889
Interest-bearing demand deposits	96,122	95,260
Savings deposits	2,383,288	2,335,773
Time deposits	1,236,290	1,479,930
<b>Total deposits</b>	<b>\$ 4,484,878</b>	<b>\$ 4,617,852</b>

At September 30, 2011, noninterest-bearing deposits increased by \$62.3 million and interest-bearing deposits decreased \$195.3 million compared to December 31, 2010. The decline in interest-bearing deposits is primarily due to a \$243.6 million decrease in time deposits which were replaced with lower costing funding sources.

**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.

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.

**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)

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 0.82 at September 30, 2011 and 0.79 at December 31, 2010. A ratio of less than one indicates a higher level of repricing liabilities over repricing assets over the next twelve months.

Gap analysis has limitations due to the static nature of the model that holds volumes and consumer behaviors constant in all economic and interest rate scenarios. Rate sensitive assets to rate sensitive liabilities repricing in one year would indicate reduced net interest income in a rising interest rate scenario, and conversely, increased net interest income in a declining interest rate scenario. Following is the gap analysis as of September 30, 2011 and December 31, 2010:

	September 30, 2011				Over 1 Year	
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Thru 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	\$ 1,919,446	\$ 141,411	\$ 287,742	\$ 2,348,599	\$ 1,452,244	\$ 172,880
Investments	130,646	138,289	178,850	447,785	403,127	223,950
Other interest-earning assets	3,730	0	0	3,730	0	0
Total interest-sensitive assets (ISA)	2,053,822	279,700	446,592	2,800,114	1,855,371	396,830
Certificates of deposit	175,187	119,584	366,138	660,909	564,616	10,707
Other deposits	2,479,468	0	0	2,479,468	0	0
Borrowings	248,191	146	25,296	273,633	38,785	39,821
Total interest-sensitive liabilities (ISL)	2,902,846	119,730	391,434	3,414,010	603,401	50,528
Gap	\$ (849,024)	\$ 159,970	\$ 75,158	\$ (613,896)	\$ 1,251,970	\$ 346,302
ISA/ISL	0.71	2.34	1.19	0.82	3.07	7.85
Gap/Total assets	15.02%	2.83%	1.33%	10.86%	22.14%	6.13%



**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, 2010				Over 1 Year	
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days	Thru 5 Years	Over 5 Years
	(dollars in thousands)					
Loans	\$ 2,074,219	\$ 190,558	\$ 281,370	\$ 2,546,147	\$ 1,508,901	\$ 163,035
Investments	84,338	108,385	150,515	343,238	416,109	255,820
Other interest-earning assets	4	0	0	4	0	0
Total interest-sensitive assets (ISA)	2,158,561	298,943	431,885	2,889,389	1,925,010	418,855
Certificates of deposit	278,610	247,766	404,315	930,691	537,518	11,648
Other deposits	2,431,106	0	0	2,431,106	0	0
Borrowings	287,883	141	288	288,312	63,943	40,104
Total interest-sensitive liabilities (ISL)	2,997,599	247,907	404,603	3,650,109	601,461	51,752
Gap	\$ (839,038)	\$ 51,036	\$ 27,282	\$ (760,720)	\$ 1,323,549	\$ 367,103
ISA/ISL	0.72	1.21	1.07	0.79	3.20	8.09
Gap/Total assets	14.43%	0.88%	0.46%	13.09%	22.77%	6.32%

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.

	Net Interest Income Change (12 Months)			
	- 200	- 100	+ 100	+ 200
	(dollars in thousands)			
September 30, 2011	\$ (5,907)	\$ (2,684)	\$ 413	\$ 1,662
December 31, 2010	(5,245)	(1,143)	1,341	4,066

The analysis and model used to quantify the sensitivity of our net interest income becomes less reliable in a decreasing 200 basis point scenario given the current low interest rate environment. Results of the 100 and 200 basis point decline in interest rate scenario are affected by the fact that many of our interest-bearing liabilities are at rates below 1% and therefore cannot decline 100 or 200 basis points, yet our interest-sensitive assets are able to decline by these amounts. In the three and nine month periods ended September 30, 2011, the cost of our interest-bearing liabilities averaged 0.97% and 1.04%, respectively and the yield on our average interest-earning assets, on a fully taxable equivalent basis, averaged 4.61% and 4.67%, respectively.

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

Asset/liability models require certain assumptions be made, such as prepayment rates on earning assets and pricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions 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.

---

**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**

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

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

Nonperforming loans include nonaccrual loans and loans classified as troubled debt restructurings. Nonaccrual loans represent loans on which interest accruals have been discontinued. Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower, who could not obtain comparable terms from alternative financing sources. In the third quarter of 2011, five relationships totaling \$0.7 million were identified as troubled debt restructurings, with 20 relationships totaling \$22.2 million being identified as troubled debt restructuring for the year. During the second quarter of 2011, an \$11.6 million troubled debt restructuring, previously included in nonaccrual totals, was returned to accruing status and as a result is now included in the troubled debt restructuring totals. Please refer to Note 10 "Loans and Allowance for Credit Losses" for additional information on troubled debt restructuring.

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. The bank excludes from nonaccrual status any loans contractually past due 90 days or more as to interest or principal payments if they are well secured and in the process of collection.

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

The allowance for credit losses was \$72.1 million at September 30, 2011 or 1.81% of loans outstanding compared to 1.69% reported at December 31, 2010 and 1.99% at September 30, 2010. The increase in the September 30, 2011 ratio when compared to December 31, 2010 can be primarily attributable to an \$11.0 million increase in specific reserves resulting from an \$11.2 million increase in nonaccrual loans. Despite the increase in nonaccrual loans, other credit measures such as the level of classified loans improved as of September 30, 2011 compared to December 31, 2010, as classified loans decreased \$118.8 million, or 23%. Additionally, delinquency on accruing loans for the same period declined \$3.8 million, or 9%.

The allowance for credit losses as a percentage of nonperforming loans was 45% as of September 30, 2011 compared to 61% at December 31, 2010 and 69% at September 30, 2010. The amount of allowance related to nonperforming loans was determined by using fair values obtained from current appraisals and updated discounted cash flow analyses. The allowance for credit losses includes specific allocations of \$34.9 million

**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)**

related to nonperforming loans covering 22% of the total nonperforming balance. Management believes that the allowance for credit losses is at a level deemed sufficient to absorb losses inherent in the loan portfolio at September 30, 2011.

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

	September 30,		December 31, 2010
	2011	2010	
	(dollars in thousands)		
<b><u>Nonperforming Loans:</u></b>			
Loans on nonaccrual basis	\$ 127,384(c)	\$ 123,221(c)	\$ 116,151(c)
Troubled debt restructured loans	34,500	1,013	1,336
Total nonperforming loans	\$ 161,884	\$ 124,234	\$ 117,487
Loans past due in excess of 90 days and still accruing	\$ 12,566	\$ 15,838	\$ 13,203
Other real estate owned	\$ 33,254	\$ 24,555	\$ 24,700
Loans outstanding at end of period	\$ 3,973,723	\$ 4,299,573	\$ 4,218,083
Average loans outstanding	\$ 4,073,871(a)	\$ 4,525,149(a)	\$ 4,467,338(b)
Nonperforming loans as a percentage of total loans	4.07%	2.89%	2.79%
Provision for credit losses	\$ 29,904(a)	\$ 53,552(a)	\$ 61,552(b)
Allowance for credit losses	\$ 72,117	\$ 85,646	\$ 71,229
Net credit losses (year to date)	\$ 29,016(a)	\$ 49,545(a)	\$ 71,962(b)
Net credit losses as a percentage of average loans outstanding (annualized)	0.95%	1.46%	1.61%
Provision for credit losses as a percentage of net credit losses	103.06%(a)	108.09%(a)	85.53%(b)
Allowance for credit losses as a percentage of end-of-period loans outstanding	1.81%	1.99%	1.69%
Allowance for credit losses as a percentage of nonperforming loans	44.55%	68.94%	60.63%
<b><u>Nonperforming Securities:</u></b>			
Nonaccrual securities at market value	\$ 0	\$ 11,049	\$ 15,823

(a) For the nine month period ended.

(b) For the twelve month period ended.

(c) Troubled debt restructurings for loans on nonaccrual status are included in the Loans on nonaccrual basis line item. These nonaccrual troubled debt restructured loans are not included in the Troubled debt restructured loans line item.

The nonaccrual securities included in the above table are pooled trust preferred collateralized debt obligations. At June 30, 2011, all of these securities were returned to accrual status because of management's expectation that all remaining principal and interest will be received.

Evidence supporting management's estimates related to timing and amount of future cash flows include: no other-than-temporary impairment charges have been recorded since the third quarter of 2010 and improvement in the underlying collateral of these bonds has occurred, evidenced

by a continued decline in new interest payment deferrals and principal defaults as well as an increase in actual cures of deferring collateral.

**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 tables show the outstanding balances of our loan portfolio and the breakdown of net charge-offs and nonperforming loans by loan type as of and for the periods presented:

	As of September 30, 2011		As of December 31, 2010	
	Outstanding Balance	Percentage of Total Portfolio	Outstanding Balance	Percentage of Total Portfolio
	(dollars in thousands)			
Commercial, financial, agricultural and other	\$ 950,547	24%	\$ 913,814	22%
Real estate construction	97,354	2	261,482	6
Residential real estate	1,096,339	28	1,127,273	27
Commercial real estate	1,284,720	32	1,354,074	32
Loans to individuals	544,763	14	561,440	13
Total loans, net of unearned income	\$ 3,973,723	100%	\$ 4,218,083	100%

	For Nine Months Ended September 30, 2011			As of September 30, 2011		
	Net Charge-offs	Percentage of Total Net Charge-offs	Net Charge-offs as a Percentage of Average Loans	Nonperforming Loans	Percentage of Total Nonperforming	Nonperforming Loans as a Percentage of Total Loans
	(dollars in thousands)					
Commercial, financial, agricultural and other	\$ 3,307	11.40%	0.11%	\$ 38,295	23.66%	0.96%
Real estate construction	14,570	50.21	0.48	36,191	22.36	0.91
Residential real estate	2,568	8.85	0.08	3,952	2.44	0.10
Commercial real estate	6,679	23.02	0.22	83,439	51.54	2.10
Loans to individuals	1,892	6.52	0.06	7	0.00	0.00
Total loans, net of unearned income	\$ 29,016	100.00%	0.95%	\$ 161,884	100.00%	4.07%

As the above table illustrates, three categories of loans, commercial, financial, agricultural and other, real estate construction, and commercial real estate were a significant portion of the nonperforming loans as of September 30, 2011.

Commercial, financial, agricultural and other loans were 24% of total loans and 24% of total nonperforming loans. Of the \$38.3 million nonperforming loans in this category, \$20.1 million is related to a line of credit issued to a western Pennsylvania real estate developer and \$10.5

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

million is related to an information technology company in Maryland. For the nine months ended September 30, 2011, net charge-offs for this category totaled \$3.3 million as a result of \$3.6 million in charge-offs which were offset by \$0.3 million in recoveries.

Real estate construction loans, which represent only 2% of total loans, accounted for 50% of net charge-offs during the nine months ended September 30, 2011 and 22% of total nonperforming loans as of September 30, 2011. In the real estate construction category, loans generated outside of Pennsylvania represented 33% of nonperforming loans and 29% of the charge-offs for that category for the nine months ended September 30, 2011. Nonperforming real estate construction loans totaled \$36.2 million as of September 30, 2011, of which,

**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)**

\$5.7 million related to a condominium project in Florida, \$17.4 million related to construction projects in eastern Pennsylvania and \$6.4 million related to development for a Nevada resort.

Commercial real estate loans, which represent 32% of total loans, were 52% of total nonperforming loans as of September 30, 2011. Nonperforming commercial real estate loans totaled \$83.4 million as of September 30, 2011. Nonaccrual loans included a \$9.2 million loan for an office complex in western Pennsylvania, \$24.1 million for two condominium projects in eastern Pennsylvania and a \$7.2 million loan for a condominium project in North Carolina. Additionally, troubled debt restructurings on accruing status included in this category include a \$6.9 million loan for a retail strip development in western Pennsylvania, a \$5.1 million loan for an office building in western Pennsylvania and a \$4.8 million loan for a golf course in Maryland.

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

**Capital Resources**

At September 30, 2011, shareholders' equity was \$769.0 million, an increase of \$19.2 million from December 31, 2010. The increase was primarily the result of \$21.0 million net income offset by \$9.4 million of dividends paid to shareholders. Additionally, other comprehensive income increased \$6.4 million due to changes in the fair value of available for sale investments and unearned ESOP shares decreased \$1.5 million.

Having a capital base which exceeds regulatory minimum levels provides First Commonwealth with a foundation to manage the current economic challenges, to expand lending, to protect depositors and to provide for growth while protecting against future uncertainties. The evaluation of capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings history and prospects. In consideration of these factors, management's primary emphasis with respect to First Commonwealth's capital position is to maintain an adequate and stable equity to assets ratio.

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

**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)

The table below presents First Commonwealth's capital position at September 30, 2011.

	Actual		Regulatory		Well Capitalized		Excess Over	
	Capital	Ratio	Capital	Ratio	Capital	Ratio	Well	
	Amount		Amount		Amount		Capitalized	
	(dollars in thousands)							Capital
								Amount
<b>Total Capital to Risk-Weighted Assets</b>								
First Commonwealth Financial Corporation	\$ 725,627	15.1%	\$ 384,067	8.0%	N/A	N/A	N/A	
First Commonwealth Bank	689,546	14.4	382,424	8.0	\$ 478,030	10.0%	\$ 211,516	
<b>Tier I Capital to Risk-Weighted Assets</b>								
First Commonwealth Financial Corporation	\$ 665,457	13.9%	\$ 192,033	4.0%	N/A	N/A	N/A	
First Commonwealth Bank	629,629	13.2	191,212	4.0	\$ 286,818	6.0%	\$ 342,811	
<b>Tier I Capital to Average Assets</b>								
First Commonwealth Financial Corporation	\$ 665,457	12.2%	\$ 218,498	4.0%	N/A	N/A	N/A	
First Commonwealth Bank	629,629	11.6	216,710	4.0	\$ 270,887	5.0%	\$ 358,742	

For an institution to qualify as well capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10%, 6% and 5%, respectively. At September 30, 2011, First Commonwealth's banking subsidiary exceeded those requirements.

On October 18, 2011, First Commonwealth Financial Corporation declared a quarterly dividend of \$0.03 per share payable on November 15, 2011. This level of dividend provides for the strengthening of capital through retained earnings during a time of unprecedented uncertainty and market volatility. Whether to increase the dividend level in the future will be dependent on both consistent earnings and continued improvement in economic conditions.



**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**

The information required by this Item is set forth in the Legal proceedings section in Part I, Item 1, Note 6, Commitments and Contingent Liabilities, which is incorporated herein by reference in response to this item.

**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, 2010.

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

None

**ITEM 3.**            **DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4.**            **(REMOVED AND RESERVED)**

**ITEM 5.**            **OTHER INFORMATION**

None

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II OTHER INFORMATION

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference to</b>
10.1	Agreement and General Release dated September 9, 2011 entered into between FCFC and Thaddeus J. Clements.	Filed herewith
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	Interactive Data File (XBRL)	Furnished herewith

**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: November 9, 2011

/s/ John J. Dolan  
John J. Dolan

President and Chief Executive Officer

DATED: November 9, 2011

/s/ Robert E. Rout  
Robert E. Rout

Executive Vice President and

Chief Financial Officer