FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-K
February 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file Number 001-11138

FIRST COMMONWEALTH FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-1428528**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
22 NORTH SIXTH STREET INDIANA, PA	**15701**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (724) 349-7220

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
COMMON STOCK, $1 PAR VALUE	NEW YORK STOCK EXCHANGE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ***x*** No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by 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 ***x*** No¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. x

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 ***x*** Accelerated filer ¨ Non-accelerated filer ¨ 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 ***x***

The aggregate market value of the voting and non-voting common stock, par value $1 per share, held by non-affiliates of the registrant (based upon the closing sale price on June 30, 2007) was approximately $765,150,324.

The number of shares outstanding of the registrant s common stock, $1.00 Par Value as of February 22, 2008, was 73,156,726.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the annual meeting of shareholders to be held April 14, 2008 are incorporated by reference into Part III.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

Other risks and uncertainties described elsewhere in this report, including the risk factors described under Item 1A Risk Factors.

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART I

ITEM 1. ***Business***
Overview

First Commonwealth Financial Corporation (First Commonwealth or we) is a Pennsylvania business corporation that is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Our address is 22 North Sixth Street, Indiana, Pennsylvania 15701 (telephone number (724) 349-7220).

First Commonwealth was incorporated on November 15, 1982. We provide a diversified range of consumer and commercial banking services through our bank subsidiary, First Commonwealth Bank (which we refer to as the Bank or FCB). We also provide trust and wealth management services and offer insurance products through FCB and our other direct or indirect subsidiaries. At December 31, 2007, we had total assets of $5.9 billion, total loans of $3.7 billion, total deposits of $4.3 billion and shareholders equity of $568.8 million.

FCB is a Pennsylvania bank and trust company and is the fifth largest banking institution headquartered in Pennsylvania. At December 31, 2007, the Bank operated 112 community banking offices in the Pennsylvania counties of Allegheny (33), Armstrong (2), Beaver (1), Bedford (3), Blair (7), Butler (5), Cambria (10), Clearfield (5), Elk (3), Indiana (9), Jefferson (3), Lawrence (5), Somerset (6), Washington (3) and Westmoreland (17). The Bank also has two loan production offices in downtown Pittsburgh and State College. The Bank operates a network of 120 automated teller machines, or ATMs, at various branch offices and offsite locations. All of our ATMs are part of the STAR and MasterCard/Cirrus networks, both of which operate nationwide. The Bank is also a member of the 29-bank Freedom ATM Alliance, which affords cardholders surcharge-free access to a network of 600 ATMs in over 50 counties in Pennsylvania, Maryland, New York and Ohio.

General Development of Our Business

First Commonwealth Bank began in 1934 as First National Bank of Indiana with initial capitalization of $255 thousand. First National Bank of Indiana changed its name to National Bank of the Commonwealth in 1971 and became a subsidiary of First Commonwealth Financial Corporation in 1983.

Since 1983, we have grown steadily through the acquisition of smaller banks and thrifts in our market area, including Deposit Bank in 1984, Dale National Bank and First National Bank of Leechburg in 1985, Citizens National Bank of Windber in 1986, Peoples Bank and Trust Company in 1990, Central Bank in 1992, Peoples Bank of Western Pennsylvania in 1993 and Unitas National Bank and Reliable Savings Bank in 1994. In 1995, we merged all of our banking subsidiaries (other than Reliable Savings Bank) into Deposit Bank and renamed the resulting institution First Commonwealth Bank. We then merged Reliable Savings Bank into First Commonwealth Bank in 1997. We acquired Southwest Bank in 1998 and merged it into First Commonwealth Bank in 2002.

Our most recent acquisitions have expanded our presence in the Pittsburgh metropolitan area.

Pittsburgh Financial. In the fourth quarter of 2003, we acquired Pittsburgh Financial Corp., the holding company for Pittsburgh Savings Bank (dba BankPittsburgh), for a total cost of approximately $28.6 million. Pittsburgh Financial had total assets of approximately $376 million, with 7 branch offices and one loan production office in Allegheny and Butler Counties of Pennsylvania.

GA Financial. In the second quarter of 2004, we acquired GA Financial, Inc., the holding company for Great American Federal, for a total cost of approximately $176.7 million. GA Financial had total assets of approximately $892 million, with 12 branch offices located in Allegheny County.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
General Development of Our Business (Continued)

Laurel Capital Group. In the third quarter of 2006, we acquired Laurel Capital Group, Inc., the holding company for Laurel Savings Bank, for a total cost of approximately $56.1 million. Laurel Capital Group had total assets of approximately $314 million, with 8 branch offices located in Allegheny and Butler Counties.

We have also focused on organic growth as part of our branch network optimization strategy by selling or closing branches in slower growth or outlying markets and acquiring or opening new branches in more densely populated markets within our territory, such as Allegheny, Butler and Washington counties. As part of this strategy, we have opened 13 de novo branches and substantially remodeled six branches during the last three years. We currently expect to open four de novo branches in the greater Pittsburgh area during 2008, and we are evaluating other sites for possible future branch locations.

Competition

The banking and financial services industry is extremely competitive in our market area. We face vigorous competition for customers, loans and deposits from many companies, including:

- commercial banks;
- savings and loan associations;
- finance companies;
- credit unions;
- trust companies;
- mortgage companies;
- money market mutual funds;
- insurance companies; and
- brokerage and investment firms.

Many of these competitors are significantly larger than us, have greater resources, lending limits and larger branch systems and offer a wider array of financial services than us. In addition, some of these competitors, such as credit unions, are subject to a lesser degree of regulation than that imposed on us.

Business Strategy   Challenges and Opportunities

One of our biggest challenges is that we operate primarily in mature markets with limited population growth. Of the 15 counties in our market area, only four counties experienced population growth of more than one percent from 2000 to 2007 [Bedford (1.35%), Butler (7.59%), Clearfield (1.36%) and Washington (2.69%)]. Two counties are expected to experience population growth in excess of one percent from 2007 through 2012 [Butler (5.06%) and Washington (1.93%)], while the population growth for the remaining 13 counties is expected to remain flat or decline over that period.

In order to grow our revenue in this market, we believe it is necessary to increase our market share by increasing the number of households that we serve and increase our profitability by increasing the number of profitable services that we provide to each household that we serve. We believe that we can achieve these goals

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
Business Strategy Challenges and Opportunities (Continued)

by becoming the financial institution of First Choice for our marketplace by offering exceptional service and products to our customers, by leveraging our roots as a community bank to differentiate ourselves from our larger competitors and by targeting select segments within the population to exploit favorable demographic trends. We have also provided training to enhance our customer service and instituted incentives and provided sales training to encourage cross-selling of additional services to our existing customers.

We also intend to evaluate and pursue opportunities to enter new markets or increase our fee-based business through acquisitions or de novo expansion. Acquisition opportunities arise infrequently and irregularly and are often met with strong competition from potential bidders. Accordingly, there is no assurance that an acquisition will arise on terms that are acceptable to us. In 2007, we opened two branches in the Pittsburgh market and a loan production office in State College.

First Commonwealth hired Mike Price as President of First Commonwealth Bank to oversee our branch network, consumer and commercial lending area, wealth management group, and product development and marketing team. The addition of Mike Price as President of First Commonwealth Bank is a key step in positioning our organization to meet and exceed our growth objectives.

Employees

At December 31, 2007, First Commonwealth and its subsidiaries employed 1,430 full-time employees and 219 part-time employees.

Supervision and Regulation

The following discussion sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to First Commonwealth and its subsidiaries. The regulatory framework is intended primarily for the protection of depositors, other customers and the federal deposit insurance funds and not for the protection of security holders. The rules governing the regulation of financial institutions and their holding companies are very detailed and technical. Accordingly, the following discussion is general in nature and does not propose to be complete or to describe all the laws and regulations that apply to First Commonwealth and its subsidiaries. A change in applicable statutes, regulations or regulatory policy may have a material adverse effect on our business, financial condition or results of operations.

Bank Holding Company Regulation

First Commonwealth Financial Corporation is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, which we refer to as the BHC Act, and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (FRB).

Acquisitions. Under the BHC Act, First Commonwealth is required to secure the prior approval of the FRB before it can merge or consolidate with any other bank holding company or acquire all or substantially all of the assets of any bank that is not already majority owned by it or acquire direct or indirect ownership, or control of, any voting shares of any bank that is not already majority owned by it, if after such acquisition it would directly or indirectly own or control more than 5% of the voting shares of such bank. Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act (CRA) ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions and open branch offices.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
Supervision and Regulation (Continued)

***Bank Holding Company Regulation* (Continued)**

Non-Banking Activities. First Commonwealth is generally prohibited under the BHC Act from engaging in, or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public that outweigh the possible adverse effects.

Reporting. Under the BHC Act, First Commonwealth is required to file periodic reports and other information of its operations with, and is subject to examination by the FRB. In addition, under the Pennsylvania Banking Code of 1965, the Pennsylvania Department of Banking has the authority to examine the books, records and affairs of any Pennsylvania bank holding company or to require any documentation deemed necessary to ensure compliance with the Pennsylvania Banking Code.

Affiliate Transactions. There are various legal restrictions on the extent to which First Commonwealth and its non-bank subsidiaries can borrow or otherwise obtain credit from its banking subsidiaries. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and are limited, as to any one of First Commonwealth or its non-bank subsidiaries, to ten percent of the lending bank s capital stock and surplus, and as to First Commonwealth and all such non-bank subsidiaries in the aggregate, to 20 percent of such lending bank s capital stock and surplus. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

SEC Regulations. First Commonwealth is also under the jurisdiction of the Securities and Exchange Commission and various state securities commissions for matters relating to the offer and sale of its securities and is subject to the Securities and Exchange Commission s rules and regulations relating to periodic reporting, proxy solicitation and insider trading.

Bank Regulations

FCB is a state bank chartered under the Pennsylvania Banking Code and is not a member of the Federal Reserve System. As such, FCB is subject to the supervision of, and is regularly examined by, both the FDIC and the Pennsylvania Department of Banking and is required to furnish quarterly reports to both agencies. The approval of the Pennsylvania Department of Banking and FDIC is also required for FCB to establish additional branch offices or merge with or acquire another banking institution. Under current Pennsylvania law, banking institutions, such as FCB, may establish branches within any county in Pennsylvania, subject to prior regulatory approval.

Restrictions on Dividends. The Pennsylvania Banking Code states, in part, that dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus (retained earnings) is at least equal to contributed capital. FCB has not declared or paid any dividends that have caused its retained earnings to be reduced below the amount required. Finally, dividends may not be declared or paid if FCB is in default in payment of any assessment due the FDIC.

Community Reinvestment. Under the CRA, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
Supervision and Regulation (Continued)

***Bank Regulations* (Continued)**

financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the applicable regulatory agency to assess an institution s record of meeting the credit needs of its community. The CRA requires public disclosure of an institution s CRA rating and requires that the applicable regulatory agency provide a written evaluation of an institution s CRA performance utilizing a four-tiered descriptive rating system. An institution s CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. For its most recent examination, the Bank received a satisfactory rating.

Consumer Laws. The operations of FCB are also subject to numerous Federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to interest rates on loans, the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

Deposit Insurance. Deposits of FCB are insured up to applicable limits by the FDIC and are subject to deposit insurance assessments to maintain the Deposit Insurance Fund. The insurance assessments are based upon a matrix that takes into account a bank s capital level and supervisory rating.

Capital Regulations

First Commonwealth and FCB are subject to risk-based capital standards by which all bank holding companies and banks are evaluated in terms of capital adequacy. These standards relate a banking company s capital to the risk profile of its assets. The risk-based capital standards require that bank holding companies and banks must have Tier 1 capital of at least 4% and total capital, including Tier 1 capital, equal to at least 8% of its total risk-adjusted assets. Tier 1 capital includes common stockholders equity and qualifying perpetual preferred stock together with related surpluses and retained earnings. The remaining portion of this capital standard, known as Tier 2 capital, may be comprised of limited life preferred stock, qualifying subordinated debt instruments, and the allowance for credit losses.

Additionally, banking organizations must maintain a minimum leverage ratio of 3% measured as the ratio of Tier 1 capital to adjusted average assets. This 3% leverage ratio is a minimum for the top-rated banking organizations without any supervisory, financial or operational weaknesses or deficiencies and other banking organizations are expected to maintain leverage capital ratios 100 to 200 basis points above the minimum depending on their financial condition.

Federal Banking Agencies have broad powers to take corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. As of December 31, 2007, FCB was a well-capitalized bank as defined by the FDIC. See Note 31 of Notes to Consolidated Financial Statements, contained in Item 8, for a table that provides a comparison of First Commonwealth s and FCB s risk-based capital ratios and the leverage ratio to minimum regulatory requirements.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
Supervision and Regulation (Continued)

Gramm-Leach-Bliley Act

Enacted in 1999, the Gramm-Leach-Bliley Act, or GLBA, repealed the 1933 Glass-Steagall Act s separation of the commercial and investment banking industries. GLBA created a new category of holding company called a financial holding company, which is authorized to engage in an expanded range of nonbanking activities, as described below, while preserving existing authority for bank holding companies to engage in activities that are closely related to banking. Generally, a bank holding company may become a financial holding company upon filing an election with the FRB if each of its depository institution subsidiaries is well-capitalized, well managed and received a CRA rating of satisfactory or better at its most recent examination. First Commonwealth is eligible to become a financial holding company but has not yet elected to do so.

Financial holding companies may engage in any activity that (i) is financial in nature or incidental to such financial activity or (ii) is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. GLBA specifies certain activities that are financial in nature. These activities include: acting as principal, agent or broker for insurance; underwriting, dealing in or making a market in securities; and providing financial and investment advice. The FRB and the Secretary of the Treasury have authority to decide whether other activities are also financial in nature or incidental to financial activity, taking into account changes in technology, changes in the banking marketplace, competition for banking services and so on.

GLBA also established a system of functional regulation, under which the federal banking agencies regulate the banking activities of financial holding companies; the Securities and Exchange Commission regulates their securities activities; and state insurance regulators regulate their insurance activities. GLBA also provided new protections against the transfer and use by financial institutions of consumers nonpublic, personal information.

USA Patriot Act

Anti-terrorism legislation enacted under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, commonly known as the Patriot Act, expanded the scope of anti-money laundering laws and regulations and imposed additional obligations on U.S. financial institutions, including banks. These regulations include obligations to maintain appropriate policies, procedures and controls, which are reasonably designed to detect and report instances of money laundering and terrorist financing.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, implemented a broad range of corporate governance, accounting and reporting measures for companies that have securities registered under the Securities Exchange Act of 1934, including publicly-held bank holding companies such as First Commonwealth. Sarbanes-Oxley created new requirements in the areas of financial disclosure and corporate governance, including:

- increased responsibility for the Chief Executive Officer and the Chief Financial Officer with respect to the content of financial statements;

- new requirements for audit committees, including independence, expertise, and responsibilities;

new standards for auditors and regulation of audits, including independence and the type of non-audit services that auditors may provide;

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Business* (Continued)
Supervision and Regulation (Continued)

***Sarbanes-Oxley Act* (Continued)**

- accelerated filing requirements for SEC reports;
- disclosures concerning internal controls and procedures;
- increased disclosure and reporting obligations for the reporting company and their directors and executive officers;
- disclosure of a code of ethics; and
- a range of new and increased civil and criminal penalties for fraud and other violations of the securities laws.

National Monetary Policy

In addition to being affected by general economic conditions, the earnings and growth of FCB and, therefore, the earnings and growth of First Commonwealth, are affected by the policies of regulatory authorities, including the FRB, the FDIC and the Commonwealth of Pennsylvania. An important function of the FRB is to regulate the money supply and credit conditions. Among the instruments used to implement these objectives are open market operations in U.S. government securities, setting the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our future business, earnings and growth cannot be predicted.

Availability of Financial Information

We file reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information concerning the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains annual, quarterly and current reports, proxy statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

Our SEC filings are also accessible at no cost on our web site at http://www.fcbanking.com, and printed copies are available upon request to First Commonwealth, to the attention of the Corporate Secretary.

We also make available on our website, and in print to any shareholder who requests them, our Corporate Governance Guidelines, the committee charters for our Audit, Executive Compensation and Governance Committees, and the Code of Conduct and Ethics that applies to all of our directors, officers and employees.

Our Chief Executive Officer has certified to the New York Stock Exchange (NYSE) that, as of the date of the certification, he was not aware of any violation by First Commonwealth of NYSE s corporate governance listing standards. In addition, our Chief Executive Officer and Chief Financial Officer have made certain certifications concerning the information contained in this report pursuant to Section 302 of the

Sarbanes-Oxley Act. The Section 302 certifications appear as exhibits 31.1 and 31.2 to this annual report on Form 10-K.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1A. ***Risk Factors***

As a financial services company, we are subject to a number of risks, many of which are outside of our control. These risks include, but are not limited to:

- credit risk, which is the risk that borrowers and other counterparties will be unable to perform their contractual obligations;
- market risk, which is the risk that changes in interest rates and prices will adversely affect our financial condition or results of operations;
- liquidity risk, which is the risk that we or our subsidiaries may have insufficient cash to meet our operating needs; and
- business and operational risk, which is the risk of loss arising from insufficient or failed internal controls, human resources, systems or external circumstances.

In addition to the other information included in this report, you should carefully consider that the following risks, among others, could have a materially negative impact on our future financial condition, results of operations or cash flows.

Credit Risks

If our allowance for credit losses is not sufficient to cover actual credit losses, our earnings would be reduced.

We maintain an allowance for credit losses in an attempt to mitigate any credit losses that we may incur. This allowance is based on, among other things, economic conditions, historical loss experience and delinquency trends. However, we cannot predict actual credit losses with certainty, and we cannot assure you that charge-offs in future periods will not exceed the allowance for credit losses. If charge-offs exceed our allowance, our earnings would be reduced. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for credit losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. Factors that require an increase in our allowance for credit losses could also reduce our earnings.

Our commercial and construction loans are subject to various lending risks depending on the nature of the borrower s business, its cash flow and our collateral.

Our commercial real estate loans involve higher principal amounts than other loans, and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. Repayment of commercial real estate loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service and the successful operation and management of the properties. As a result, repayment of such loans may be affected by factors outside the borrower s control, such as adverse conditions in the real estate market or the economy or changes in government regulation. If the cash flow from the property is reduced, the borrower s ability to repay the loan and the value of the security for the loan may be impaired.

Repayment of our commercial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1A. ***Risk Factors*** **(Continued)**

Market Risks

Changes in interest rates could negatively impact our financial condition and results of operations.

Our results of operations depend substantially on net interest income, which is the difference between interest earned on interest-earning assets (such as investments and loans) and interest paid on interest-bearing liabilities (such as deposits and borrowings). Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply, and other factors beyond our control may also affect interest rates. If our interest-earning assets mature or reprice more quickly than interest-bearing liabilities in a declining interest rate environment, net interest income could be adversely impacted. Likewise, if interest-bearing liabilities mature or reprice more quickly than interest-earnings assets in a rising interest rate environment, net interest income could be adversely impacted.

Changes in interest rates also can affect the value of loans and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in non-performing assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows.

Although fluctuations in market interest rates are neither completely predictable nor controllable, our Asset/Liability Committee (ALCO) meets periodically to monitor our interest rate sensitivity position and oversee our financial risk management by establishing policies and operating limits. For further discussion, see the Market Risk section included in Item 7 of this report.

Liquidity Risks

If we are unable to borrow funds, we may be unable to meet the cash flow requirements of our depositors and borrowers or meet the operating cash needs to fund expansion and other activities.

Liquidity refers to our ability to meet cash flow needs on a timely basis and at a reasonable cost. We have a variety of funding sources, including the core deposit base of First Commonwealth Bank, repayment and maturities of loans, securities available for sale and borrowings from the Federal Home Loan Bank and under lines of credit, each of which is described in greater detail under Liquidity in Item 7 of this report. If we are unable to access any of these funding sources when needed, we might be unable to meet customers needs, which could adversely impact our financial condition, results of operations, cash flow and regulatory capital ratios.

Our ability to pay dividends depends primarily on our receipt of dividends from our subsidiary bank, which in turn is limited by regulatory restrictions and its operating cash flow needs.

We are a bank holding company and our business is conducted by our subsidiaries, each of which is a separate and distinct legal entity. As a result, our ability to pay dividends depends on our receipt of dividends from our direct and indirect subsidiaries. Our bank subsidiary, First Commonwealth Bank, is our primary source of dividends. Dividend payments from First Commonwealth Bank are subject to legal and regulatory limitations, generally based on accumulated net earnings and surplus, imposed by bank regulatory agencies. The ability of First Commonwealth Bank to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. At December 31, 2007, approximately $74 million was available without the need for regulatory approval for the payment of dividends to us from First Commonwealth Bank. There is no assurance that First Commonwealth Bank or our other subsidiaries will be able to pay dividends in the future or that we will generate adequate cash flow to pay dividends in the future. Our failure to pay dividends on our common stock could have a material adverse effect on the market price of our common stock.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1A. *Risk Factors* **(Continued)**

Business and Operational Risks

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

The banking industry is heavily regulated under both federal and state law. Banking regulations, designed primarily for the safety of depositors, may limit a financial institution s growth and the return to its investors, by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, expansion of branch offices and the offering of securities or trust services. We are also subject to capitalization guidelines established by federal law and could be subject to enforcement actions to the extent that our subsidiary bank is found by regulatory examiners to be undercapitalized. It is not possible to predict what changes, if any, will be made to existing federal and state legislation and regulations regarding these capitalization guidelines or the effect that such changes may have on our future business and earnings prospects. We also cannot predict the nature or the extent of the effect on our business and earnings of new federal or state legislation. Further, the cost of compliance with regulatory requirements may adversely affect our ability to operate profitably.

Competition from other financial institutions in originating loans, attracting deposits and providing various financial services may adversely affect our profitability.

First Commonwealth Bank faces substantial competition in originating loans, both commercial and consumer. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that First Commonwealth Bank originates and the interest rates it may charge on these loans.

In attracting business and consumer deposits, First Commonwealth Bank faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns and better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations. As a result, we may need to seek other sources of funds that may be more expensive to obtain and could increase our cost of funds.

Our banking and non-banking subsidiaries also compete with non-bank providers of financial services, such as brokerage firms, consumer finance companies, credit unions, insurance companies and governmental organizations which may offer more favorable terms. Some of our non-bank competitors are not subject to the same extensive regulations that govern our banking operations. As a result, those non-bank competitors may have advantages over our banking and non-banking subsidiaries in providing certain products and services. This competition may reduce or limit our margins on banking and non-banking services, reduce our market share and adversely affect our earnings and financial condition.

Changes in accounting standards could materially impact our financial statements.

From time to time the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1A. ***Risk Factors*** **(Continued)**
Business and Operational Risks **(Continued)**

could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. We cannot predict the nature or the extent of the effect on our business and earnings of these changes in accounting standards.

An interruption to our information systems could adversely impact our operations.

We rely upon our information systems for operating and monitoring all major aspects of our business, including deposit and loan operations, as well as internal management functions. These systems and our operations could be damaged or interrupted by natural disasters, power loss, network failure, improper operation by our employees, security breaches, computer viruses, intentional attacks by third parties or other unexpected events. Any disruption in the operation of our information systems could adversely impact our operations, which may affect our financial condition, results of operations and cash flows.

New litigation or changes in current litigation could adversely affect our financial condition or results of operation.

Although we are not currently a party to any litigation that we consider to be material, future litigation may arise during the normal course of our business which could be material and have a negative impact on our financial condition or results of operations. Future litigation or changes in current litigation could also adversely impact our reputation, which is vital to our ability to compete in the communities that we serve.

We may undertake acquisitions in the future which could place heavy demands on our employees, disrupt our business and cause us to not realize expected earnings.

Our growth has come primarily though the acquisition of other financial institutions, and we expect to continue to make acquisitions as opportunities arise, both within and outside our current market area. We cannot predict the number, size or timing of acquisitions that we will undertake in future periods. We may face difficulty in integrating an acquired company which could prevent us from realizing expected revenue growth or cost savings or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition, loss of key employees, disruption of our business or the business of the acquired company, or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition.

ITEM 1B. ***Unresolved Staff Comments***
None.

ITEM 2. ***Properties***
Our principal office is located in the old Indiana County courthouse complex, consisting of the former courthouse building and the former sheriff s residence and jail building for Indiana County. This certified Pennsylvania and national historic landmark was built in 1870 and restored by us in the early 1970s. We lease the complex from Indiana County pursuant to a lease agreement that was originally signed in 1973 and renewed in 1998 for a 25 year period.

The majority of our administrative personnel are also located in two owned buildings and one leased premise in Indiana, Pennsylvania, each of which is in close proximity to our principal office.

First Commonwealth Bank has 112 banking offices of which 35 are leased and 77 are owned. We also lease two loan production offices.

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 2. ***Properties*** **(Continued)**

While these facilities are adequate to meet our current needs, available space is limited and additional facilities may be required to support future expansion. However, we have no current plans to lease, purchase or construct additional administrative facilities.

ITEM 3. ***Legal Proceedings***

There are no material legal proceedings to which First Commonwealth or its subsidiaries are a party, or of which any of their property is the subject. All legal proceedings presently pending or threatened against First Commonwealth or its subsidiaries arose in the normal course of business and, in the opinion of management, will not have a material adverse effect on the consolidated operations or financial position of First Commonwealth and its subsidiaries.

ITEM 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of our security holders in the fourth quarter of 2007.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 5. ***Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchase of Equity Securities***

First Commonwealth is listed on the NYSE under the symbol FCF. As of February 22, 2008, there were approximately 9,289 holders of record of First Commonwealth s common stock. The table below sets forth the high and low sales prices per share and cash dividends declared per share for common stock of First Commonwealth for each quarter during the last two fiscal years.

Period	High Sale	Low Sale	Cash Dividends Per Share
2007			
First Quarter	$ 13.66	$ 11.45	$ 0.17
Second Quarter	$ 12.57	$ 10.76	$ 0.17
Third Quarter	$ 12.39	$ 8.90	$ 0.17
Fourth Quarter	$ 12.18	$ 9.78	$ 0.17

Period	High Sale	Low Sale	Cash Dividends Per Share
2006			
First Quarter	$ 14.70	$ 12.80	$ 0.17
Second Quarter	$ 14.61	$ 12.14	$ 0.17
Third Quarter	$ 13.30	$ 12.25	$ 0.17
Fourth Quarter	$ 14.11	$ 12.61	$ 0.17

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 5. ***Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchase of Equity Securities*** **(Continued)**

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on First Commonwealth s common stock to the KBW Regional Banking Index, the Russell 2000 Index, and the peer group of comparable publicly traded companies that have been used in prior performance graphs (the Old Peer Group). We believe the KBW Regional Banking Index is more reflective of the total return of our industry group and have elected to use this Index for comparative purposes in place of the Old Peer Group. The stock performance graph assumes $100 was invested on December 31, 2002, and the cumulative return is measured as of each subsequent fiscal year end.

	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
First Commonwealth Financial Corporation	100.00	130.12	146.98	129.73	141.75	119.33
Russell 2000	100.00	147.25	174.24	182.18	215.64	212.26
First Commonwealth Peer Group*	100.00	132.71	151.73	146.64		