YESTERDAY TOMORROW TODAY

FIRST COMMONWEALTH FINANCIAL CORPORATION 1999 ANNUAL REPORT

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“

Yesterday
is experience.

Tomorrow
is hope.

Today
is getting from one point to the other
the best you can.

”

—Robert Frost

Joseph E. O'Dell
President & Chief Executive Officer

MESSAGE TO SHAREHOLDERS

As I reported to you earlier, 1999 was a year of progress and performance. We went into the year with specific goals whose attainment we believed to be critical to the long-term success of the Corporation. These critical goals included:

- Fully integrate Southwest Bank without dilution to earnings per share
- Achieve a return on equity in excess of 15%
- Continue double-digit increase of earnings per share
- Complete and execute Y2K rollover plans
- Improve non-interest income through the integration of bank, investment and insurance products
- Educate and license employees that interact with customers to enhance their ability to give advice on a wide array of products
- Substantially upgrade our web site and improve our Internet delivery channel.

I am pleased to report that all of these critical objectives were either accomplished or the desired progress was attained. The financial performance targets were exceeded as we reported record net income of $53 million. This generated a return on average equity of 15.44% and an increase in core earnings per share of 24%. The increase in non-interest income (excluding securities gains) was 21.7% while the efficiency ratio improved to 51%. Return on average assets for 1999 increased to 1.25%. Year-end total assets of $4.34 billion ranks us 5th in size in Pennsylvania and 87th nationwide among all bank holding companies.

Additional actions were taken throughout the year to further enhance shareholder value. Cash dividends

were increased twice resulting in a yield of 4.67% at year-end. The current indicated dividend for 2000 is 14.3% above the dividend paid in 1999. The fourteen consecutive years of double-digit dividend increases make First Commonwealth one of the highest ranked in the country among all publicly traded companies. We also continued to aggressively buy back our shares in the open market including over 3.8 million shares (post split) acquired through a Modified Dutch Auction completed last September. In November we distributed shares subsequent to a two-for-one stock split. This action was taken to stimulate more activity among individual investors by reducing the initial cost of becoming a First Commonwealth shareholder. The split also encouraged new institutional shareholders to invest by increasing the average number of shares actively traded.

Because over half of the registered First Commonwealth shareholders participate in the dividend reinvestment plan, we have made significant additional improvements to make a great plan even better. The increase of the discount applied to shares purchased with reinvested dividends was doubled to a full 10%. Other improvements were made to attract more individual investors who believe these types of plans provide the best opportunity for long-term wealth building. First Commonwealth's dividend reinvestment plan is among the best, if not the best, in the country.

The financial services sector has experienced significant turmoil over the past several years. At the end of 1997 bank stocks were trading at a P/E (price divided by earnings per share) multiple of 83% relative to the S&P 500 average. At the end of 1999 the industry had declined to a multiple of only 48% of the S&P 500 average. This decline occurred despite record earnings and increased dividends for the industry as a whole. As I am sure you are aware, the stock market has not rewarded the small and mid cap stocks or the traditional value stocks overall. In fact our total return to shareholders last year of just over 2% outperformed the vast majority of those stocks.

The good news is that this low P/E level relative to the S&P 500 has historically signaled a bottom in industry valuations. In fact many stock analysts are forecasting a possible rally in financial stocks later in 2000 as the Federal Reserve moves to a neutral position on future interest rate increases. Other positive factors include the opportunities opened up by the recent passage of the Financial Services Modernization Act, an anticipated increase in merger and acquisition activity, and increased share repurchases due to the low current valuations.

While we do not control all the factors that affect the share value of our stock, we do control the primary driver of long-term value. That primary driver is the consistent improvement of the financial performance of the Corporation. We are committed to build on the progress that was made in 1999 in order to maximize the long-term return to our shareholders.

I am especially proud of, and grateful to, all the employees throughout First Commonwealth for their accomplishments this past year. Their efforts to make the Y2K rollover a non-event were exceptional. The enthusiasm with which they embraced intensive training in improving their customer service skills was most gratifying. The old axiom that you can best judge a company by its people is even more true during this period of continuous change. By that measurement we certainly have an exceptional company in which we all can take great pride.

Yesterday

THE *AMERICAN HERITAGE DICTIONARY* defines "tradition" as "the passing down of a culture from generation to generation." Traditions are founded on yesterday's experiences, experiences that have proven valuable and worthwhile to the community. In Pamplona, Spain, it's the running of the bulls. In Punxsutawney, Pennsylvania, it's Phil checking his shadow. At First Commonwealth, our tradition is high quality service and local values, consistently delivered. Our affiliate companies have roots in western and central Pennsylvania leading back to 1880. Consequently, our customer service skills have been carefully crafted for 120 years.

Many traditions improve with time. With First Commonwealth, these improvements include more choices in financial services and new technologies. We can now provide all of the benefits of a large financial organization. The constant through all of these changes is our core belief in providing local service and local value. This is our area of expertise; it's the source of our success. It's what our customers, shareholders and communities have come to expect. These important constituencies expect First Commonwealth to keep a local focus in servicing and reinvesting money in local communities. They expect a board of directors and local management who are in touch with the needs of the community.

That's why a critical component of our business strategy continues to include locally managed delivery of financial services. Our affiliates have a management team who know exactly how to best serve their communities. These are people who live there, work there, and participate in the local traditions. By keeping our business in the area, we support other local businesses, create jobs and stimulate the economy. This makes our communities a better place for everyone. As we look to the past, we are pleased with yesterday's successes. Over the years, our customer focus hasn't changed, nor will it change in the future. It's our tradition. And it's our foundation for the future.

AS A BUSINESS OWNER, MY FINANCIAL NEEDS ARE COMPLEX: LOANS, DEPOSIT ACCOUNTS, INVESTMENT ADVICE, AND INSURANCE PROTECTION. I GET IT ALL FROM FIRST COMMONWEALTH – MY TRUSTED FINANCIAL ADVISOR.

ED BRATTON, Owner of Giant Eagle stores and long-time First Commonwealth customer and shareholder

Tomorrow

Have you ever seen old science fiction films? That view of the future, complete with robots and techno-gadgets, all seemed so far-fetched at the time. The truth is, today's technological advances are only a little less fantastic than that old science fiction. Who would have imagined Automated Teller Machines (ATMs) or Internet banking? However, many of today's technologies make banking easier and more convenient for our customers, as do new ways of looking at services and delivery. These changes will not alter the traditions of yesterday; rather, they'll enhance those traditions. With our combination of traditional values and new services, we eagerly anticipate the future for both our customers and our shareholders.

In that spirit, customers will have access to what we call "total solution banking" - banking that is grounded in our belief that customers should have access to services that meet all financial needs, wherever and whenever they need them. Insurance and investment services will feature prominently in our future, providing true "one stop shopping" for financial services. In these busy times, many customers might not have time to stop by a bank, preferring instead to do banking at home through a variety of methods. One such avenue will be Internet banking, a service that will allow customers to do everything from pay bills and print instant statements to purchase insurance and trade stock shares via home computer.

As an employee shareholder, I want to be affiliated with a company with a clear vision of future success. That's why I am with First Commonwealth.

ORLANDO FULGENZIO III, Vice President in charge of Internet design – fcfcovf@telerama.com

If you worry about navigating your way through these new services, you shouldn't. First Commonwealth recognizes how challenging finding your path to financial goals can be, so we are increasing our advisory capacity. Financial advisors will work to ensure you have a clear plan to reach your financial goals. These advisors can aid in difficult decisions, and can help develop a plan to get you where you want to go, providing you with a true "road map" for the challenges – and hopes – of the 21st century.

Today

Between reflecting on the past and planning for the future comes the reality of today. What is happening in the present remains the most concrete means of measuring success and achievement. At First Commonwealth, we believe what is happening right now is every bit as promising as our proud past and our exciting future. Although our company and our industry are in a transition phase, customers and shareholders can enjoy greatly expanded value today.

Recent legislation, for instance, has allowed us to capitalize on our foresight to provide expanded financial services. Already customers can purchase a full line of insurance products and services through First Commonwealth Insurance Agency, and obtain investment services through First Commonwealth Trust Company. With the legislation, we will be able to proceed at an even faster pace. As customers look forward to Internet banking in the future, they can today utilize a financial calculator and peruse information on insurance, trust and investment services at our web site at **www.fcfbank.com**. If they prefer, they can bank via First Commonwealth Bank's expanded call center known as the Convenience Banking Center at 1-800-711-BANK (2265), which allows them to do most transactions from their phones. For customers eager for increased financial advice, we offer two products through our newest affiliate, Southwest Bank. FOCUS, a financial planning tool designed to help customers assess and prioritize financial needs, and Total Solutions Banking, a comprehensive financial approach for businesses, are both receiving wide acclaim.

Successful businesses, like First Commonwealth, are the ones that can make an effective transition from past successes to future opportunities.

LAURIE STERN SINGER, President, Allegheny Valley Chamber of Commerce and Allegheny Valley Development Corporation; Director for the Corporation and shareholder

Good decision-making today stands as strong testament to the fact that we've learned from our past and have the necessary vision for the future. Our decisions have proved highly successful, as our record-breaking year demonstrates. Not only are we investing in the future, we're also obtaining excellent financial results now. Our customers and shareholders can trust our decision-making knowing that we delivered on promises this year, as we have in the past, and as we will in the future.

E. H. Brubaker

Sumner E. Brumbaugh

Ray T. Charley

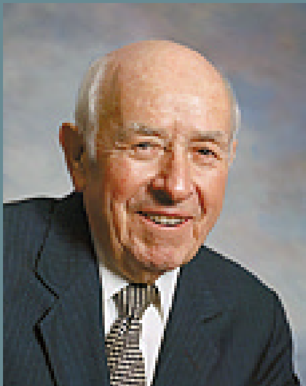
Edward T. Côté

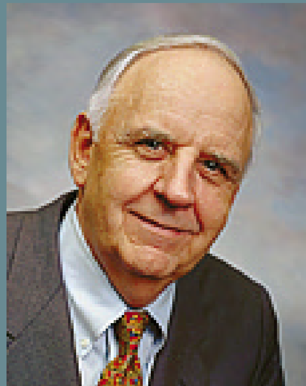
Clayton C. Dovey, Jr.

Ronald C. Geiser

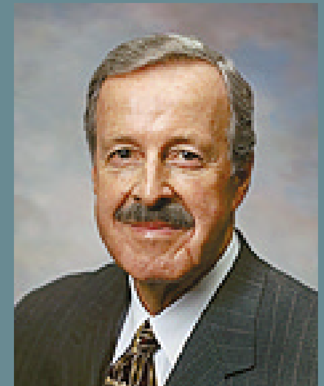
Johnston A. Glass

A. B. Hallstrom


David F. Irvin


David L. Johnson

Robert F. Koslow


Dale P. Latimer

Joseph W. Proske

John A. Robertshaw, Jr.

Laurie Stern Singer

David R. Tomb, Jr., Esq.

David S. Dahlmann

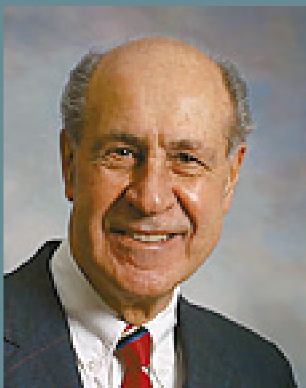
Thomas L. Delaney

Thomas J. Hanford

H. H. Heilman, Jr., Esq.

James W. Newill

Joseph E. O'Dell


E. James Trimarchi

Robert C. Williams

BOARD OF DIRECTORS

E. H. Brubaker *Rockton*
Retired, Chairman of the Board, Deposit Bank, DuBois

Sumner E. Brumbaugh *Duncansville*
Chairman of the Board, Central Bank, Hollidaysburg

Ray T. Charley *Greensburg*
President, Thomi Co.

Edward T. Côté *Rector*
Associate, The Wakefield Group, Murrysville

David S. Dahlmann *Greensburg*
Vice Chairman, First Commonwealth Financial Corporation and President and Chief Executive Officer, Southwest Bank

Thomas L. Delaney *Jupiter, FL*
Private Investor

Clayton C. Dovey, Jr. *Johnstown*
Retired, Chairman of the Board, Cenwest Bank, Johnstown

Ronald C. Geiser *Johnstown*
Retired, Former President and Chief Executive Officer, Cenwest Bank, Johnstown

Johnston A. Glass *Indiana*
President and Chief Executive Officer, First Commonwealth Bank, Indiana

A. B. Hallstrom *DuBois*
Chairman, Hallstrom Construction, Inc., DuBois

Thomas J. Hanford *Boca Raton, FL*
Private Investor

H. H. Heilman, Jr., Esq. *Manorville*
Attorney at Law, Heilman and McClister, Kittanning

David F. Irvin *Indiana*
Owner, The Irvin-McKelvy Co., Indiana

David L. Johnson *Havertown*
Retired, Former Vice President and Corporate Secretary, Pennsylvania Manufacturer's Corporation, Philadelphia

Robert F. Koslow *New Castle*
Chairman of the Board, Peoples Bank of Western Pennsylvania, New Castle

Dale P. Latimer *New Alexandria*
President, R & L Development Co., New Alexandria

James W. Newill *Boca Raton, FL*
Certified Public Accountant, Former President, J.W. Newill Company

Joseph E. O'Dell *Indiana*
President and Chief Executive Officer, First Commonwealth Financial Corporation, Indiana

Joseph W. Proske *Ridgway*
Retired, Former Vice President-Engineering, Kane Magnetics International, Kane

John A. Robertshaw, Jr. *Greensburg*
Former Chairman, Laurel Vending, Inc.

Laurie Stern Singer *Allison Park*
President, Allegheny Valley Chamber of Commerce and Allegheny Valley Development Corporation

David R. Tomb, Jr., Esq. *Indiana*
Attorney at Law, Indiana

E. James Trimarchi *Indiana*
Chairman of the Board, First Commonwealth Financial Corporation, Indiana

Robert C. Williams *Fayetteville*
President, Unitas Bank, Chambersburg

FIRST COMMONWEALTH AFFILIATE PRESIDENTS

John O. Campbell

David S. Dahlmann

John O. Campbell, *President,* First Commonwealth Insurance Agency, First Commonwealth Place, 654 Philadelphia Street, Indiana, PA 15701 • (724) 349-6056

David S. Dahlmann, *President & Chief Executive Officer,* Southwest Bank, 111 Main Street, Greensburg, PA 15601 • (724) 834-2310

Johnston A. Glass

Rosemary Krolick

Johnston A. Glass, *President & Chief Executive Officer,* First Commonwealth Bank, Central Offices, Philadelphia and Sixth Streets, Indiana, PA 15701 • (724) 349-3400

Rosemary Krolick, *President & Chief Executive Officer,* Commonwealth Systems Corporation, 22 North Sixth Street, Indiana, PA 15701 • (724) 349-4310

Domenic P. Rocco, Jr.

Gerard M. Thomchick

Domenic P. Rocco, Jr., *President & Chief Executive Officer,* First Commonwealth Trust Company, 614 Philadelphia Street, Indiana, PA 15701 • (724) 465-3282

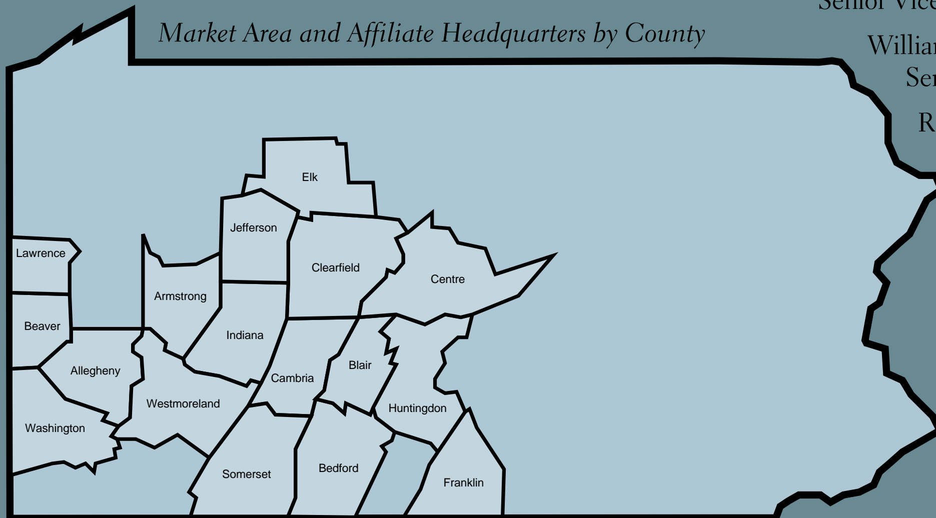
Gerard M. Thomchick, *President,* First Commonwealth Professional Resources Incorporated, 22 North Sixth Street, Indiana, PA 15701 • (724) 349-7220. *President,* Commonwealth Trust Credit Life Insurance Company, 2700 North Third Street, Suite 2000, Phoenix, AZ 85004

CORPORATE INFORMATION

Corporate Description

First Commonwealth Financial Corporation is a Pennsylvania business corporation established in 1983, registered as a bank holding company by the Board of Governors of the Federal Reserve System.

Corporate Executive Offices



ALLEGHENY
Reliable Bank
Bridgeville, PA

ARMSTRONG
First Bank of Leechburg
Leechburg, PA

BLAIR
Central Bank
Hollidaysburg, PA

CAMBRIA
Cenwest Bank
Johnstown, PA

CLEARFIELD
Deposit Bank
DuBois, PA

FRANKLIN
Unitas Bank
Chambersburg, PA

INDIANA
First Commonwealth Financial Corporation
First Commonwealth Bank
NBOC Bank
Commonwealth Systems Corporation
First Commonwealth Insurance Agency
First Commonwealth Professional Resources Inc.
First Commonwealth Trust Company
Indiana, PA

LAWRENCE
Peoples Bank of Western Pennsylvania
New Castle, PA

SOMERSET
Peoples Bank
Jennerstown, PA

WESTMORELAND
Southwest Bank
Greensburg, PA

Executive Offices

Old Courthouse Square,
22 North Sixth Street
Indiana, Pennsylvania

Mail Address

Post Office Box 400
Indiana, Pennsylvania 15701-0400
Telephone (724)349-7220

Executive Officers

E. James Trimarchi
Chairman of the Board

Joseph E. O'Dell
President and Chief Executive Officer

David S. Dahlmann
Vice Chairman

Gerard M. Thomchick
Senior Executive Vice President and Chief Operating Officer

John J. Dolan
Executive Vice President and Chief Financial Officer

Rosemary Krolick
Executive Vice President and Chief Information Officer

David R. Tomb, Jr.
Senior Vice President, Secretary and Treasurer

William R. Jarrett
Senior Vice President, Risk Management

R. John Previte
Senior Vice President, Investments

For shareholder information see page 52 of this report.

For other information call our Convenience Banking Center at 1-800-711-BANK (2265) or visit our website: www.fcfbank.com

SHAREHOLDER VALUE

First Commonwealth is committed to building shareholder value. It is our mission, our highest priority. Value is delivered through the total return (dividend yields plus market price appreciation) from investing in FCF stock. This page is an illustration of how our dividend policy and exceptional Dividend Reinvestment Plan deliver on our commitment.

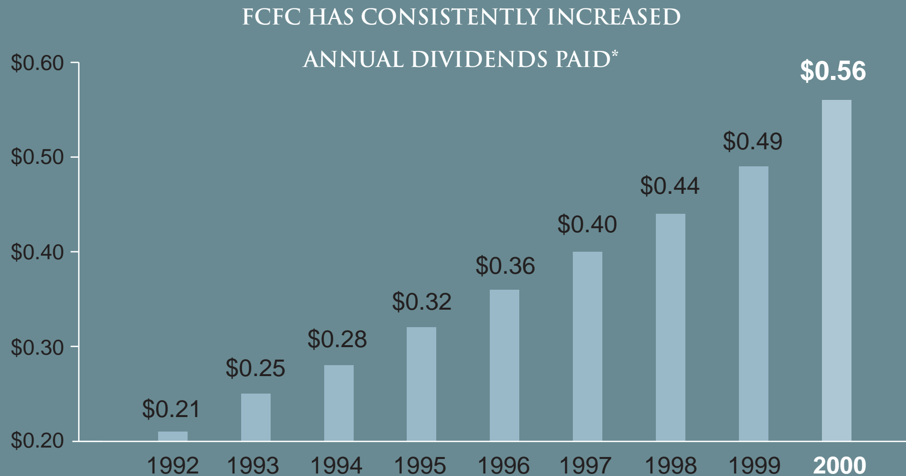


**Chart shows consistent dividend increases since the year First Commonwealth was first listed on NYSE. First Commonwealth has actually increased dividends every year since 1983, when the Corporation was established. Dividends paid reflect 2-for-1 stock splits in 1994 and 1999. Dividend for 2000 is indicated rate.*

OUR DIVIDEND REINVESTMENT PLAN IS ONE OF THE BEST IN THE COUNTRY!

First Commonwealth is proud to offer an outstanding opportunity to create long-term wealth through its Dividend Reinvestment Plan. The Plan boasts a number of benefits for participants as well as accolades and endorsements by analysts and shareholders alike.

The combination of the Plan structure and dividend growth make it one of the premier Dividend Reinvestment Plans not only within our industry - in the country. For information, contact our Plan Administrator, The Bank of New York, at 1-800-524-4458 or visit our web site at **www.fcfbank.com**.

FCFC DIVIDEND REINVESTMENT PLAN

Plan Benefits

- Receive a 10% discount on shares purchased with reinvested dividends for faster growth
- Detailed statements for simplified record keeping
- All the rights of voluntary direct share ownership for flexibility
- Automatic reinvestment of dividends for convenience
- Safekeeping of shares for security
- Full or partial reinvestment or cash dividends for options

Highlights

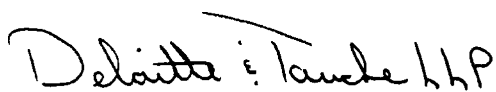
- Recognition by Moody's *Handbook of Dividend Achievers* for our eleven years of increased dividends and our 12.13% dividend growth rate over the past ten years
- FCF ranks 114th out of 10,000 actively traded companies in dividend growth
- Over 50% of First Commonwealth's registered shareholders participate in the plan
- Attractive dividend yield of 5.40% (as of 3/6/00)

To the Board of Directors and Shareholders
of First Commonwealth Financial Corporation:

We have audited the accompanying consolidated balance sheets of First Commonwealth Financial Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 1998 and 1997 consolidated financial statements give retroactive effect to the merger of First Commonwealth Financial Corporation and Southwest National Corporation on December 31, 1998, which has been accounted for as a pooling of interests as described in Note 3 to the consolidated financial statements. We did not audit the balance sheet of Southwest National Corporation as of December 31, 1998, or the related statements of income, shareholders' equity, and cash flows of Southwest National Corporation for the years ended December 31, 1998 and 1997, which statements reflect total assets of 23% as of December 31, 1998, and net interest income of 25% and 26% of the related consolidated totals for the years ended December 31, 1998 and 1997, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Southwest National Corporation for 1998 and 1997, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of First Commonwealth Financial Corporation and subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.



DELOITTE & TOUCHE, LLP
Pittsburgh, Pennsylvania
January 28, 2000

CONSOLIDATED BALANCE SHEETS

(Dollar Amounts in Thousands)

	December 31,	
	1999	1998
Assets		
Cash and due from banks	**$ 92,673**	$ 96,615
Interest-bearing bank deposits	**1,218**	1,914
Federal funds sold	**8,700**	1,000
Securities available for sale, at market	**1,144,042**	1,042,636
Securities held to maturity, at cost, (market value $435,000 in 1999 and $486,185 in 1998)	**448,347**	482,696
Loans	**2,503,687**	2,382,229
Unearned income	**(3,628)**	(7,379)
Allowance for credit losses	**(33,539)**	(32,304)
Net loans	**2,466,520**	2,342,546
Property and equipment	**40,917**	41,929
Other real estate owned	**1,707**	2,370
Other assets	**136,722**	85,083
Total assets	**$ 4,340,846**	$ 4,096,789
Liabilities		
Deposits (All Domestic):		
Noninterest-bearing	**$ 251,404**	$ 264,082
Interest-bearing	**2,697,425**	2,667,049
Total deposits	**2,948,829**	2,931,131
Short-term borrowings	**424,827**	140,547
Other liabilities	**42,152**	38,856
Company obligated mandatorily redeemable capital securities of subsidiary trust	**35,000**	-0-
Other long-term debt	**603,355**	630,850
Total long-term debt	**638,355**	630,850
Total liabilities	**4,054,163**	3,741,384
Shareholders' Equity		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	**-0-**	-0-
Common stock, $1 par value per share, 100,000,000 shares authorized, 62,525,412 shares issued and 58,142,848 shares outstanding in 1999; 62,525,412 shares issued and 61,875,946 shares outstanding in 1998	**62,525**	62,525
Additional paid-in capital	**68,330**	68,978
Retained earnings	**257,773**	235,623
Accumulated other comprehensive income	**(40,304)**	2,199
Treasury stock (4,382,564 and 649,466 shares at December 31, 1999 and 1998, respectively at cost)	**(55,448)**	(5,913)
Unearned ESOP shares	**(6,193)**	(8,007)
Total shareholders' equity	**286,683**	355,405
Total liabilities and shareholders' equity	**$ 4,340,846**	$ 4,096,789

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

CONSOLIDATED STATEMENTS OF INCOME

(Dollar Amounts in Thousands, except per share data)

	Years Ended December 31,		
	1999	1998	1997
Interest Income			
Interest and fees on loans	**$ 196,428**	$ 203,093	$ 198,357
Interest and dividends on investments:			
Taxable interest	**88,266**	69,467	49,246
Interest exempt from Federal income taxes	**9,479**	6,600	4,869
Dividends	**3,108**	2,138	1,375
Interest on Federal funds sold	**105**	1,893	689
Interest on bank deposits	**121**	230	236
Total interest income	**297,507**	283,421	254,772
Interest Expense			
Interest on deposits	**103,331**	113,960	112,600
Interest on short-term borrowings	**13,832**	10,214	8,108
Interest on mandatorily redeemable capital securities of subsidiary trust	**1,007**	-0-	-0-
Interest on other long-term debt	**34,483**	24,108	3,719
Total interest on long-term debt	**35,490**	24,108	3,719
Total interest expense	**152,653**	148,282	124,427
Net interest income	**144,854**	135,139	130,345
Provision for credit losses	**9,450**	15,049	10,152
Net interest income after provision for credit losses	**135,404**	120,090	120,193
Other Income			
Securities gains	**565**	1,457	6,825
Trust income	**5,525**	5,251	4,421
Service charges on deposits	**9,255**	8,274	8,432
Gain on sale of loans	**4,996**	1,630	207
Other income	**10,512**	9,726	5,656
Total other income	**30,853**	26,338	25,541
Other Expenses			
Salaries and employee benefits	**49,806**	48,710	47,074
Net occupancy expense	**6,537**	6,750	7,063
Furniture and equipment expense	**5,991**	6,105	6,165
Data processing expense	**3,213**	3,101	3,049
Pennsylvania shares tax expense	**3,477**	3,152	2,951
Merger and related charges	**-0-**	7,915	-0-
Other operating expenses	**24,591**	24,468	22,555
Total other expenses	**93,615**	100,201	88,857
Income before income taxes and extraordinary items	**72,642**	46,227	56,877
Applicable income taxes	**19,612**	12,229	17,338
Net income before extraordinary items	**53,030**	33,998	39,539
Extraordinary items (less applicable income taxes of $336)	**-0-**	(624)	-0-
Net Income	**$ 53,030**	$ 33,374	$ 39,539
Average Shares Outstanding (a)	**60,333,092**	61,333,572	61,671,898
Average Shares Outstanding Assuming Dilution (a)	**60,569,322**	61,666,026	61,845,674
Earnings per common share: (a)			
Net income before extraordinary items	**$ 0.88**	$ 0.55	$ 0.64
Extraordinary items	**$ 0.00**	$ (0.01)	$ 0.00
Net income	**$ 0.88**	$ 0.54	$ 0.64
Earnings per common share assuming dilution: (a)			
Net income before extraordinary items	**$ 0.88**	$ 0.55	$ 0.64
Extraordinary items	**$ 0.00**	$ (0.01)	$ 0.00
Net income	**$ 0.88**	$ 0.54	$ 0.64

(a) Share amounts have been restated to reflect the two-for-one stock split effected in the form of a 100% stock dividend declared on October 19, 1999.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollar Amounts in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
Balance at December 31, 1996	$ 63,322	$ 75,491	$ 210,843	$ 1,429	$ (6,089)	$ (3,474)	$ 341,522
Comprehensive income							
Net income	-0-	-0-	39,539	-0-	-0-	-0-	39,539
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period	-0-	-0-	-0-	5,159	-0-	-0-	5,159
Less: reclassification adjustment for gains on securities included in net income	-0-	-0-	-0-	(4,432)	-0-	-0-	(4,432)
Total other comprehensive income	-0-	-0-	-0-	727	-0-	-0-	727
Total comprehensive income	-0-	-0-	39,539	727	-0-	-0-	40,266
Cash dividends declared	-0-	-0-	(22,152)	-0-	-0-	-0-	(22,152)
Decrease in unearned ESOP shares	-0-	171	-0-	-0-	-0-	1,038	1,209
Discount on dividend reinvestment plan purchases	-0-	(630)	-0-	-0-	-0-	-0-	(630)
Treasury stock acquired	-0-	-0-	-0-	-0-	(5,908)	-0-	(5,908)
Treasury stock reissued	-0-	(34)	-0-	-0-	50	-0-	16
Balance at December 31, 1997	63,322	74,998	228,230	2,156	(11,947)	(2,436)	354,323
Comprehensive income							
Net income	-0-	-0-	33,374	-0-	-0-	-0-	33,374
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period	-0-	-0-	-0-	971	-0-	-0-	971
Less: reclassification adjustment for gains on securities included in net income	-0-	-0-	-0-	(928)	-0-	-0-	(928)
Total other comprehensive income	-0-	-0-	-0-	43	-0-	-0-	43
Total comprehensive income	-0-	-0-	33,374	43	-0-	-0-	33,417
Cash dividends declared	-0-	-0-	(25,981)	-0-	-0-	-0-	(25,981)
Net increase in unearned ESOP shares	-0-	158	-0-	-0-	-0-	(5,571)	(5,413)
Discount on dividend reinvestment plan purchases	-0-	(1,016)	-0-	-0-	-0-	-0-	(1,016)
Treasury stock acquired	-0-	-0-	-0-	-0-	(2,123)	-0-	(2,123)
Treasury stock reissued	-0-	(38)	-0-	-0-	2,255	-0-	2,217
Treasury stock cancelled in merger	(795)	(5,107)	-0-	-0-	5,902	-0-	-0-
Cash issued for partial shares in merger	(2)	(17)	-0-	-0-	-0-	-0-	(19)
Balance at December 31, 1998	62,525	68,978	235,623	2,199	(5,913)	(8,007)	355,405
Comprehensive income							
Net income	-0-	-0-	53,030	-0-	-0-	-0-	53,030
Other comprehensive income, net of tax:							
Unrealized holding losses on securities arising during the period	-0-	-0-	-0-	(42,137)	-0-	-0-	(42,137)
Less: reclassification adjustment for gains on securities included in net income	-0-	-0-	-0-	(366)	-0-	-0-	(366)
Total other comprehensive income	-0-	-0-	-0-	(42,503)	-0-	-0-	(42,503)
Total comprehensive income	-0-	-0-	53,030	(42,503)	-0-	-0-	10,527
Cash dividends declared	-0-	-0-	(30,880)	-0-	-0-	-0-	(30,880)
Decrease in unearned ESOP shares	-0-	53	-0-	-0-	-0-	1,814	1,867
Discount on dividend reinvestment plan purchases	-0-	(358)	-0-	-0-	-0-	-0-	(358)
Treasury stock acquired	-0-	-0-	-0-	-0-	(51,331)	-0-	(51,331)
Treasury stock reissued	-0-	(343)	-0-	-0-	1,796	-0-	1,453
Balance at December 31, 1999	$ 62,525	$ 68,330	$ 257,773	$ (40,304)	$ (55,448)	$ (6,193)	$ 286,683

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar Amounts in Thousands)

	Years Ended December 31,		
	1999	1998	1997
Operating Activities			
Net income	**$ 53,030**	$ 33,374	$ 39,539
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	**9,450**	15,049	10,152
Depreciation and amortization	**7,735**	7,914	7,033
Net gains on sales of assets	**(5,192)**	(3,829)	(7,148)
Income from increase in cash surrender value of bank owned life insurance	**(2,126)**	(1,365)	(204)
Increase in interest receivable	**(773)**	(4,011)	(8,241)
Increase in interest payable	**1,815**	1,159	2,842
Increase (decrease) in income taxes payable	**445**	(584)	(451)
Change in deferred taxes	**287**	(1,404)	1,327
Other - net	**(11,922)**	6,567	3,621
Net cash provided by operating activities	**52,749**	52,870	48,470
Investing Activities			
Transactions with securities held to maturity:			
Sales	**-0-**	-0-	-0-
Maturities and redemptions	**127,566**	211,948	137,124
Purchases of investment securities	**(93,151)**	(184,668)	(125,078)
Transactions with securities available for sale:			
Sales	**39,282**	171,891	50,049
Maturities and redemptions	**193,605**	184,508	87,936
Purchases of investment securities	**(398,933)**	(891,718)	(256,444)
Proceeds from sales of loans and other assets	**99,692**	104,609	22,772
Sale of subsidiary	**(2,431)**	-0-	-0-
Investment in bank owned life insurance	**(20,000)**	-0-	(25,000)
Net decrease (increase) in time deposits with banks	**689**	3,127	(759)
Net increase in loans	**(227,347)**	(50,580)	(232,881)
Purchases of premises and equipment	**(5,197)**	(7,702)	(6,141)
Net cash used by investing activities	**(286,225)**	(458,585)	(348,422)
Financing Activities			
Proceeds from issuance of other long-term debt	**25,000**	469,800	204,842
Repayments of other long-term debt	**(50,319)**	(37,576)	(63,487)
Proceeds from issuance of company obligated mandatorily redeemable capital securities of subsidiary trust	**35,000**	-0-	-0-
Discount on dividend reinvestment plan purchases	**(358)**	(1,016)	(630)
Dividends paid	**(27,825)**	(25,746)	(21,739)
Net increase (decrease) in Federal funds purchased	**(45,025)**	(60,675)	53,675
Net increase (decrease) in other short-term borrowings	**329,306**	(2,228)	(7,417)
Sale of branch and deposits, net of cash received	**-0-**	(8,612)	-0-
Acquisition of treasury stock	**(51,331)**	(2,123)	(5,908)
Reissuance of treasury stock	**1,453**	2,217	16
Net increase in deposits	**21,333**	56,909	128,253
Net cash provided by financing activities	**237,234**	390,950	287,605
Net increase (decrease) in cash and cash equivalents	**3,758**	(14,765)	(12,347)
Cash and cash equivalents at January 1	**97,615**	112,380	124,727
Cash and cash equivalents at December 31	**$ 101,373**	$ 97,615	$ 112,380

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

NOTE 1—*Statement of Accounting Policies*

General

The following summary of accounting and reporting policies is presented to aid the reader in obtaining a better understanding of the financial statements and related financial data of First Commonwealth Financial Corporation and its subsidiaries (the "Corporation") contained in this report.

The financial information is presented in accordance with generally accepted accounting principles and general practice for financial institutions. In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, these estimates and assumptions affect revenues and expenses in the financial statements and as such, actual results could differ from those estimates.

Through its subsidiaries which include two commercial banks, a nondepository trust company, and insurance agency, the Corporation provides a full range of loan, deposit, trust and insurance services primarily to individuals and small to middle-market businesses in seventeen counties in central and western Pennsylvania. Under current conditions, the Corporation is reporting one business segment.

The Corporation and subsidiaries are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Corporation and its subsidiaries for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated in consolidation.

Investments of 20 to 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting.

Securities

Debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as *securities held-to-maturity* and are reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are to be classified as *trading securities* and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as *securities available-for-sale* and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of deferred taxes.

The Corporation has securities classified as either held-to-maturity or available-for-sale. The Corporation does not engage in trading activities. Net gain or loss on the sale of securities is determined by using the specific identification method.

In June 1998, the Financial Accounting Standards Board ("FASB") issued statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133") which is effective for the first quarter of years beginning after June 15, 2000. FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities which require that an entity recognize all derivatives as either assets or liabilities in a balance sheet and measure those instruments at fair value. Management's preliminary analysis is that adoption of FAS No. 133 should not have a material impact on the Corporation's financial condition or results of operations.

Effective January 1, 1999, the Corporation adopted the FASB Statement No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("FAS No. 134"). FAS No. 134 amends FAS No. 65 "Accounting for Certain Mortgage Banking Activities". FAS No. 65 required that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities as trading securities while FAS No. 134 requires the resulting mortgage-backed securities or other retained interests be classified based on the entity's ability and intent to sell or hold those investments. On the date FAS No. 134 is initially applied, an enterprise may reclassify mortgage backed securities and other beneficial interests retained after the securitization of mortgage loans held for sale from the trading category, except for those with sales commitments in place. The Corporation currently holds no mortgage backed securities or other beneficial interests retained after the securitization of mortgage loans held for sale. The adoption of FAS No. 134 did not have a material impact on the Corporation's financial condition or results of operations.

Loans

Loans are carried at the principal amount outstanding. Unearned income on installment loans and leases is taken into income on a declining basis which results in an approximately level rate of return over the life of the loan or lease. Interest is accrued as earned on nondiscounted loans.

The Corporation considers a loan to be impaired when, based on current information and events, it is probable that a creditor

will be unable to collect principal or interest due according to the contractual terms of the loan. Loan impairment is measured based on the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Payments received on impaired loans are applied against the recorded investment in the loan. For loans other than those that the Corporation expects repayment through liquidation of the collateral, when the remaining recorded investment in the impaired loan is less than or equal to the present value of the expected cash flows, income is recorded on a cash basis.

Mortgage Servicing Rights

When the Corporation purchases or originates mortgage loans with a definitive plan to sell or securitize those loans and retain the mortgage servicing rights, the Corporation measures the mortgage servicing rights at cost by allocating the cost of the mortgage loans between the mortgage servicing rights and the mortgage loans (without the mortgage servicing rights) based on their relative fair values at the date of purchase or origination. When the Corporation does not have a definitive plan at the purchase or origination date and later sells or securitizes the mortgage loans and retains the mortgage servicing rights, the Corporation allocates the amortized cost of the mortgage loans between the mortgage servicing rights and the mortgage loans (without mortgage servicing rights) based on their relative fair values at the date of sale. The amount capitalized as the right to service mortgage loans is recognized as a separate asset and amortized in proportion to, and over the period of, estimated net servicing income (servicing revenue in excess of servicing cost). Mortgage servicing rights are periodically evaluated for impairment based on fair values.

Loan Fees

Loan origination and commitment fees, net of associated direct costs, are deferred and the net amount is amortized as an adjustment to the related loan yield on the interest method, generally over the contractual life of the related loans or commitments.

Other Real Estate Owned

Real estate, other than bank premises, is recorded at the lower of cost or fair value less selling costs at the time of acquisition. Expenses related to holding the property, net of rental income, are generally charged against earnings in the current period.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of an amount adequate to provide for losses which may be incurred on loans currently held. Management determines the adequacy of the allowance based on historical patterns of loan charge-offs and recoveries, the relationship of the allowance to outstanding loans, industry experience, current economic trends and other factors relevant to the collectibility of loans currently in the portfolio.

Bank-Owned Life Insurance

In January 1999 and November 1997, the Corporation purchased insurance on the lives of a certain group of employees. The policies accumulate asset values to meet future liabilities including the payment of employee benefits such as health care. Premiums of $20,000 and $25,000 are shown in the Consolidated Statements of Cash Flows for 1999 and 1997, respectively. Increases in the cash surrender value are recorded as other income in the Consolidated Statements of Income. The cash surrender value of bank-owned life insurance is reflected in "other assets" on the Consolidated Balance Sheets.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line and accelerated methods over the estimated useful life of the asset. Charges for maintenance and repairs are expensed as incurred. Where a lease is involved, amortization is charged over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

Accounting for the Impairment of Long-Lived Assets

The Corporation reviews long-lived assets, such as premises and equipment and intangibles for impairment whenever events or changes in circumstances, such as a significant decrease in the market value of an asset or the extent or manner in which an asset is used indicate that the carrying amount of an asset may not be recoverable. If there is an indication that the carrying amount of an asset may not be recoverable, future discounted cash flows expected to result from the use of the asset are estimated. If the sum of the expected cash flows is less than the carrying value of the asset a loss is recognized for the difference between the carrying value and fair market value of the asset.

Income Taxes

The Corporation records taxes in accordance with the asset and liability method utilized by Statement of Financial Accounting Standards No. 109 ("FAS No. 109"), whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases given the provisions of the enacted tax laws. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are not expected to be realized based upon available evidence.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands, except per share data)

NOTE 1—*Statement of Accounting Policies (continued)*

Comprehensive Income Disclosures

For all periods presented, "other comprehensive income" (comprehensive income excluding net income) includes only one component, which is the change in unrealized holding gains and losses on available for sale securities. The following table identifies the related tax effects allocated to each component of other comprehensive income in the Statements of Changes in Shareholders' Equity:

	December 31, 1999			December 31, 1998			December 31, 1997		
	Pre-tax Amount	**Tax (Expense) Benefit**	**Net of Tax Amount**	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains (losses) on securities:									
Unrealized holding gains (losses) arising during the period	**$(64,826)**	**$ 22,689**	**$(42,137)**	$ 1,495	$ (524)	$ 971	$ 7,936	$ (2,777)	$ 5,159
Less: reclassification adjustment for gains realized in net income	**(563)**	**197**	**(366)**	(1,428)	500	(928)	(6,819)	2,387	(4,432)
Net unrealized gains (losses)	**(65,389)**	**22,886**	**(42,503)**	67	(24)	43	1,117	(390)	727
Other comprehensive income	**$(65,389)**	**$ 22,886**	**$(42,503)**	$ 67	$ (24)	$ 43	$ 1,117	$ (390)	$ 727

Cash Flow Statement

Cash and Cash Equivalents

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

Supplemental Disclosures

	1999	1998	1997
Cash paid during the year for:			
Interest	**$ 150,839**	$ 147,123	$ 121,600
Income taxes	**$ 18,832**	$ 14,200	$ 16,685
Noncash investing and financing activities:			
ESOP borrowings	**$ -0-**	$ 6,000	$ -0-
ESOP loan reductions	**$ 1,814**	$ 429	$ 1,038
Loans transferred to other real estate owned and repossessed assets	**$ 4,936**	$ 6,624	$ 7,314
Gross increase (decrease) in market value adjustment to securities available for sale	**$ (65,390)**	$ 67	$ 1,117

Stock Split

On October 19, 1999, the Corporation's Board of Directors approved a 2-for-1 stock split effected in the form of a 100% stock dividend. Shareholders of record at the close of business November 4, 1999 received one additional share for each share held. The additional shares were distributed on November 18, 1999. Pursuant to the foregoing stock split an additional 31,262,706 common shares were issued, and the sum of $31,263 ($1 per share) was transferred to the Corporation's common stock account, and such amount was charged against the Corporation's additional paid-in capital account. Common stock, additional paid-in capital, and share data for all periods presented have been restated to reflect the stock split as if it had occurred at the beginning of the earliest period presented.

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders less unallocated ESOP shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. For all periods presented the dilutive effect on average shares outstanding is the result of compensatory stock options outstanding.

Employee Stock Ownership Plan

Accounting treatment for the Corporation's Employee Stock Ownership Plan ("ESOP") described in NOTE 18 follows Statement of Position 93-6 ("SOP 93-6") "Employers Accounting for Employee Stock Ownership Plans" for ESOP shares acquired after December 31, 1992 (new shares). The Corporation has elected, as permitted under SOP 93-6, not to adopt this statement for ESOP shares acquired on or before December 31, 1992 (old shares).

ESOP shares purchased subject to debt guaranteed by the Corporation are recorded as a reduction of common shareholders' equity by charging unearned ESOP shares. As shares are committed to be released to the ESOP trust for allocation to plan participants, unearned ESOP shares is credited for the average cost of the shares to the ESOP. Compensation cost recognized for new shares in accordance with the provisions of SOP 93-6 is based upon the fair market value of the shares committed to be released. Additional paid-in capital is charged or credited for the difference between the fair value of the shares committed to be released and the cost of those shares to the ESOP. Compensation cost recognized for old shares committed to be released is recorded at the cost of those shares to the ESOP.

Dividends on both old and new unallocated ESOP shares are used for debt service and are reported as a reduction of debt and accrued interest payable. Dividends on allocated ESOP shares are charged to retained earnings and allocated to the plan participants' accounts. The average number of common shares outstanding used in calculating earnings per share excludes all unallocated ESOP shares.

Employee Stock Option Plan

FASB Statement No. 123 "Accounting for Stock Based Compensation" ("FAS No. 123") defines a method of measuring stock based compensation, such as stock options granted, at an estimated fair value. FAS No. 123 also permits the continued measurement of stock based compensation under provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25").

As permitted under FAS No. 123, the Corporation has elected to use the intrinsic value method to measure stock based compensation under APB 25 and to disclose in a footnote to the financial statements, net income and earnings per share determined as if the fair value methodology of FAS No. 123 was implemented (see NOTE 19).

NOTE 2—*Sale of Subsidiary*

Effective April 1, 1999, the Corporation sold all of the outstanding common stock of BSI Financial Services Inc. ("BSI"), a wholly-owned subsidiary of the Corporation, to a bank headquartered in Richmond, Indiana. Cash proceeds in the amount of $1,709 were received, resulting in a loss on sale of $202 which has been reflected in the financial statements. BSI provided mortgage banking, loan servicing and collection services to the Corporation's subsidiary banks and unaffiliated organizations. Services performed by BSI for the subsidiary banks have been transferred to the subsidiary banks or other nonbank subsidiaries of the Corporation.

NOTE 3—*Business Combination*

Effective December 31, 1998, the Corporation acquired all of the outstanding shares of Southwest National Corporation ("Southwest"), a Pennsylvania-chartered bank holding company headquartered in Greensburg, Pennsylvania. Each of the 3,043,738 outstanding shares of Southwest National Corporation were exchanged for 5.8 shares of the Corporation's common stock. The aggregate number of shares issued by the Corporation, excluding partial shares was 17,652,156. Related share amounts have been restated for the stock split described in NOTE 1. The merger was accounted for as a pooling of interests, and accordingly, all financial statements were restated as though the merger had occurred at the beginning of the earliest period presented.

NOTE 4—*Cash and Due From Banks on Demand*

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or a noninterest-bearing balance held with the Federal Reserve Bank. The subsidiary banks maintained with the Federal Reserve Bank average balances of $3,807 during 1999 and $18,561 during 1998.

NOTE 5—*Securities Available For Sale*

Below is an analysis of the amortized cost and approximate fair values of securities available for sale at December 31, 1999 and 1998:

	1999				1998			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Approximate Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Treasury Securities	**$ 4,970**	**$ -0-**	**$ (27)**	**$ 4,943**	$ 29,961	$ 400	$ -0-	$ 30,361
Obligations of U.S. Government Corporations and Agencies:								
Mortgage Backed Securities	**781,690**	**104**	**(38,777)**	**743,017**	715,882	2,342	(1,167)	717,057
Other	**123,436**	**-0-**	**(4,068)**	**119,368**	176,571	1,149	(152)	177,568
Obligations of States and Political Subdivisions	**75,348**	**210**	**(5,940)**	**69,618**	36,225	744	(185)	36,784
Debt Securities Issued by Foreign Governments	**430**	**-0-**	**-0-**	**430**	460	-0-	-0-	460
Corporate Securities	**70,252**	**11**	**(5,812)**	**64,451**	1,099	-0-	(7)	1,092
Other Mortgage Backed Securities	**85,521**	**-0-**	**(4,413)**	**81,108**	34,169	61	(552)	33,678
Total Debt Securities	**1,141,647**	**325**	**(59,037)**	**1,082,935**	994,367	4,696	(2,063)	997,000
Equities	**64,330**	**3**	**(3,226)**	**61,107**	44,749	887	-0-	45,636
Total Securities Available for Sale	**$ 1,205,977**	**$ 328**	**$ (62,263)**	**$ 1,144,042**	$ 1,039,116	$ 5,583	$ (2,063)	$ 1,042,636

Mortgage backed securities include mortgage backed obligations of U.S. Government agencies and corporations, mortgage backed securities issued by other organizations and other asset backed securities. These obligations have contractual maturities ranging from less than one year to 30 years and have an anticipated average life to maturity ranging from less than one year to 21 years. All mortgage backed securities contain a certain amount of risk related to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact upon prepayment speeds, therefore the Corporation uses computer simulation models to test the average life and yield volatility of all mortgage backed securities under various interest rate scenarios to insure that volatility falls within acceptable limits. At December 31, 1999 and 1998, the Corporation owned no high risk mortgage backed securities as defined by the Federal Financial Institutions Examination Council's Supervisory Policy Statement on Securities Activities.

The amortized cost and estimated market value of debt securities at December 31, 1999, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Approximate Fair Value
Due within 1 year	$ 4,962	$ 4,969
Due after 1 but within 5 years	152,005	147,816
Due after 5 but within 10 years	15,585	15,106
Due after 10 years	101,884	90,919
	274,436	258,810
Mortgage Backed Securities	867,211	824,125
Total Debt Securities	$ 1,141,647	$ 1,082,935

Proceeds from the sales of securities available for sale were $39,282, $171,891 and $50,049 during 1999, 1998 and 1997 respectively. Gross gains of $541, $2,817 and $6,833 and gross losses of $0, $1,284 and $14 were realized on those sales during 1999, 1998 and 1997 respectively.

Securities available for sale with an approximate fair value of $463,004 and $179,943 were pledged at December 31, 1999 and 1998, respectively to secure public deposits and for other purposes required or permitted by law.

NOTE 6—*Securities Held to Maturity*

Below is an analysis of the amortized cost and approximate fair values of debt securities held to maturity at December 31, 1999 and 1998:

	1999				1998			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Approximate Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Obligations of U.S. Government Corporations and Agencies:								
Mortgage Backed Securities	**$ 183,926**	**$ 60**	**$ (4,231)**	**$ 179,755**	$ 224,312	$ 655	$ (429)	$ 224,538
Other	**104,790**	**-0-**	**(2,436)**	**102,354**	105,785	1,296	(92)	106,989
Obligations of States and Political Subdivisions	**134,770**	**176**	**(6,204)**	**128,742**	140,513	2,556	(512)	142,557
Debt Securities Issued by Foreign Governments	**358**	**-0-**	**-0-**	**358**	358	-0-	-0-	358
Corporate Securities	**22,212**	**-0-**	**(711)**	**21,501**	5,249	10	-0-	5,259
Other Mortgage Backed Securities	**2,291**	**-0-**	**(1)**	**2,290**	6,479	5	-0-	6,484
Total Securities Held to Maturity	**$ 448,347**	**$ 236**	**$ (13,583)**	**$ 435,000**	$ 482,696	$ 4,522	$ (1,033)	$ 486,185

The amortized cost and estimated market value of debt securities at December 31, 1999, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Approximate Fair Value
Due within 1 year	$ 3,941	$ 3,941
Due after 1 but within 5 years	133,853	131,225
Due after 5 but within 10 years	46,643	45,849
Due after 10 years	77,693	71,940
	262,130	252,955
Mortgage Backed Securities	186,217	182,045
Total Debt Securities	$ 448,347	$ 435,000

There were no sales of securities held to maturity in 1999, 1998 or 1997.

Securities held to maturity with an amortized cost of $282,388 and $277,345 were pledged at December 31, 1999 and 1998, respectively, to secure public deposits and for other purposes required or permitted by law.

NOTE 7—*Loans (all domestic)*

Loans at year end were divided among these general categories:

	December 31,	
	1999	1998
Commercial, financial, agricultural and other	**$ 417,300**	$ 377,733
Real estate loans:		
Construction and land development	**41,734**	33,097
1-4 Family dwellings	**980,506**	1,009,903
Other real estate loans	**495,789**	387,166
Loans to individuals for household, family and other personal expenditures	**502,465**	517,907
Leases, net of unearned income	**65,893**	56,423
Subtotal	**2,503,687**	2,382,229
Unearned income	**(3,628)**	(7,379)
Total loans and leases	**$ 2,500,059**	$ 2,374,850

Most of the Corporation's business activity was with customers located within Pennsylvania. The portfolio is well diversified, and as of December 31, 1999 and 1998, there were no significant concentrations of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands)

NOTE 8—*Allowance for Credit Losses*

Description of changes:

	1999	1998	1997
Allowance at January 1	**$ 32,304**	$ 25,932	$ 25,234
Additions:			
Recoveries of previously charged off loans	**1,381**	1,950	1,524
Provision charged to operating expense	**9,450**	15,049	10,152
Deductions:			
Loans charged off	**9,596**	10,627	10,978
Allowance at December 31	**$ 33,539**	$ 32,304	$ 25,932

Relationship to impaired loans:

	1999	1998
Recorded investment in impaired loans at end of period	**$ 12,827**	$ 9,741
Average balance of impaired loans for the year	**$ 10,808**	$ 10,756
Allowance for credit losses related to impaired loans	**$ 3,082**	$ 1,593
Impaired loans with an allocation of the allowance for credit losses	**$ 7,471**	$ 4,530
Impaired loans with no allocation of the allowance for credit losses	**$ 5,356**	$ 5,211
Income recorded on impaired loans on a cash basis	**$ 458**	$ 286

NOTE 9—*Financial Instruments with Off-Balance-Sheet Risk*

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amount of those instruments reflects the extent of involvement the Corporation has in particular classes of financial instruments.

As of December 31, 1999 and 1998, the Corporation did not own or trade any other financial instruments with significant off-balance-sheet risk including derivatives such as futures, forwards, interest rate swaps, option contracts and the like, although such instruments may be appropriate to use in the future to manage interest rate risk.

The Corporation's exposure to credit loss in the event of nonperformance by the other party of the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit written is represented by the contract or notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The following table identifies the notional amount of those instruments at December 31, 1999 and 1998.

	1999	1998
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 421,871**	$ 481,354
Standby letters of credit	**$ 39,847**	$ 38,456
Commercial letters of credit	**$ 514**	$ -0-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, residential and income-producing commercial properties.

Standby letters of credit and commercial letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE 10—*Premises and Equipment*

Premises and equipment are described as follows:

	Estimated Useful Life	**1999**	1998
Land	Indefinite	**$ 5,425**	$ 5,481
Buildings and improvements	5 - 50 Years	**44,582**	44,368
Leasehold improvements	5 - 39 Years	**9,930**	9,725
Furniture and equipment	3 - 25 Years	**46,177**	44,124
Subtotal		**106,114**	103,698
Less accumulated depreciation and amortization		**65,197**	61,769
Total premises and equipment		**$ 40,917**	$ 41,929

Depreciation and amortization related to premises and equipment was $5,160 in 1999, $5,669 and $5,171 in 1998 and 1997, respectively.

NOTE 11—*Interest-Bearing Deposits*

Components of interest-bearing deposits at December 31 were as follows:

	1999	1998
NOW and Super NOW accounts	$ 98,545	$ 107,947
Savings and MMDA accounts	1,073,789	1,078,534
Time deposits	1,525,091	1,480,568
Total interest-bearing deposits	$ 2,697,425	$ 2,667,049

Interest-bearing deposits at December 31, 1999 and 1998, include reallocations from demand deposits of $97,883 and $94,588 and reallocations from NOW and Super NOW accounts of $294,943 and $272,320 respectively into Savings and MMDA accounts. These reallocations are based on a formula approved by the regulatory authorities and have been made to reduce the Corporation's reserve requirement.

Included in time deposits at December 31, 1999 and 1998, were certificates of deposit in denominations of $100 or more of $358,261 and $299,412 respectively.

Interest expense related to $100 or greater certificates of deposit amounted to $18,103 in 1999, $16,921 in 1998, and $17,574 in 1997.

Included in time deposits at December 31, 1999, were certificates of deposit with the following scheduled maturities:

2000	$ 799,072
2001	293,846
2002	340,042
2003	45,619
2004 and thereafter	44,007
	$ 1,522,586

NOTE 12—*Short-term Borrowings*

Short-term borrowings at December 31 were as follows:

	1999			1998		
	Ending Balance	Average Balance	Average Rate	Ending Balance	Average Balance	Average Rate
Federal funds purchased	$ 2,950	$ 94,161	5.22%	$ 47,975	$ 72,511	5.68%
Borrowings from FHLB	100,000	49,037	5.21%	-0-	18,336	5.73%
Securities sold under agreements to repurchase	262,301	124,904	4.66%	84,228	90,383	4.76%
Treasury, tax and loan note option	59,576	11,167	4.81%	8,344	14,104	5.24%
Total	$ 424,827	$279,269	4.95%	$ 140,547	$ 195,334	5.23%
Maximum total at any month-end	$ 424,960			$ 278,247		

Interest expense on short-term borrowings for the years ended December 31 is detailed below:

	1999	1998	1997
Federal funds purchased	$ 4,913	$ 4,119	$ 3,466
Borrowings from FHLB	2,557	1,051	274
Securities sold under agreements to repurchase	5,825	4,305	3,772
Treasury, tax and loan note option	537	739	596
Total interest on short-term borrowings	$ 13,832	$ 10,214	$ 8,108

NOTE 13—*Company Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trust*

The Corporation established First Commonwealth Capital Trust I ("the Trust"), a Delaware business trust and the Trust issued 35,000 capital securities (liquidation amount of $35 million) during September 1999, through a private offering to qualified investors. Additionally, the Trust issued common securities to the Corporation. The Trust used the proceeds from the sale to buy a series of 9.50% junior subordinated deferrable interest debentures due 2029 from the Corporation with the same economic terms as the capital securities. The Trust will distribute the cash payments it receives from the Corporation on the debentures to the holders of the capital securities and the common securities.

The original series A capital securities and series A junior subordinated deferrable interest debentures have since been exchanged for registered series B capital securities and registered series B junior subordinated deferrable interest debentures having the same economic terms as the original series A securities.

The Trust will redeem all of the outstanding capital securities when the debentures are paid at maturity on September 1, 2029. Subject to receiving prior approval of the Board of Governors of the Federal Reserve System the Corporation may redeem the debentures, in whole or in part, at any time on or after September 1, 2009, at a redemption price equal to 104.750% of the principal amount of the debentures on September 1, 2009, declining ratably on each September 1 thereafter to 100% on or after September 1, 2019, plus accrued and unpaid interest to the date of redemption. The Corporation may also redeem the debentures prior to September 1, 2009, upon the occurrence of certain tax and bank regulatory events, subject to receiving prior approval of the Board of Governors of the Federal Reserve System. If the Corporation redeems any debentures before their maturity, the Trust will use the cash it receives on the redemption of the debentures to redeem, on a pro rata basis, capital securities and common securities having an aggregate liquidation amount equal to the aggregate principal amount of the debentures redeemed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands, except per share data)

NOTE 13—*Company Obligated Mandatorily Redeemable Capital Securities of Subsidiary Trust (continued)*

The net proceeds (after deduction of offering expenses and the initial purchaser's commission) from the sale of the debentures to the Trust were approximately $34.2 million. The Corporation used the net proceeds from the issuance of the debentures to partially finance the purchase of 3,819,420 shares of its outstanding common stock (approximately 6.5% of its outstanding shares of common stock) pursuant to a "modified Dutch Auction" tender offer. Unamortized deferred issuance costs associated with the capital securities amounted to $909 as of December 31, 1999 and are being amortized on a straight-line basis over the term of the capital securities. The outstanding balance of the capital securities are included as a separate component of long-term debt on the Consolidated Balance Sheets while interest on the capital securities is included as a separate component of interest expense on the Consolidated Statements of Income. The amortization of the deferred issuance costs is included in interest expense from the capital securities on the Consolidated Statements of Income.

NOTE 14—*Other Long-term Debt*

Long-term debt at December 31, follows:

	1999		1998	
	Amount	**Rate**	Amount	Rate
ESOP loan due				
December, 2005	**$ 6,193**	**Libor +1%**	$ 8,007	Libor +1%
Bank loan due				
July, 2003	**16,000**	**FF +1.25%**	0	
Borrowings from				
FHLB due:				
February, 2000	**25,000**	**4.72%**	25,000	4.72%
July, 2000	**25,000**	**4.72%**	25,000	4.72%
August, 2002	**-0-**		25,000	5.36%
November, 2002	**50,000**	**5.82%**	50,000	5.82%
November, 2002	**-0-**		25,000	5.33%
December, 2002	**50,000**	**5.71%**	50,000	5.71%
February, 2008	**100,000**	**5.45%**	100,000	5.45%
February, 2008	**100,000**	**5.48%**	100,000	5.48%
May, 2008	**55,000**	**5.67%**	55,000	5.67%
May, 2008	**45,000**	**5.67%**	45,000	5.67%
November, 2008	**50,000**	**5.03%**	50,000	5.03%
December, 2008	**65,000**	**4.96%**	65,000	4.96%
December, 2017	**7,264**	**6.17%**	7,476	6.17%
June, 2019	**8,898**	**5.72%**	-0-	
Mortgage loan due				
July, 2012	**-0-**		177	2.00%
Mortgage loan due				
January, 2013	**-0-**		190	4.50%
	$ 603,355		$ 630,850	

All Federal Home Loan Bank stock, along with an interest in unspecified mortgage loans and mortgage-backed securities, with an aggregate statutory value equal to the amount of the preceding advances, have been pledged as collateral with the Federal Home Loan Bank of Pittsburgh.

Capital securities included in total long-term debt on the Consolidated Balance Sheets are excluded from NOTE 14, but are described in NOTE 13.

In October 1999, the parent company entered into an agreement with an unrelated financial institution which enabled the parent company to borrow up to $20,000 through October 2000. As of December 31, 1999, $16,000 was outstanding and $4,000 remained available on this line of credit. At the option of the lender this commitment could be extended for an additional year. Loan terms require payments of eleven quarterly installments equal to one-sixteenth of the outstanding principal amount as of the commitment expiration date plus a balloon payment for the remaining outstanding balance to be paid at maturity. The maturity date of the loan is the third anniversary of the commitment expiration date. Interest on advances taken is accrued at either the daily Federal funds rate plus 1.25%, Euro-rate plus 1.25%, the lender's as-offered rate or prime rate. The parent company may elect the interest rate method to be applied for each advance.

Scheduled loan payments for other long-term debt are summarized below:

	2000	2001	2002	2003	2004	Thereafter
Loan payments	$52,051	$5,670	$105,611	$8,634	$1,465	$429,924

During 1998, the Corporation incurred a cost of $960 for the prepayment of FHLB term borrowings with original maturities scheduled for 2007. This amount was recorded on the Consolidated Statements of Income as an extraordinary item, net of $336 of applicable income taxes.

NOTE 15—*Common Share Commitments*

At December 31, 1999, the Corporation had 100,000,000 common shares authorized and 62,525,412 shares outstanding. Outstanding shares were reduced by 4,382,564 shares of treasury stock at December 31, 1999 and 649,466 shares at December 31, 1998. The Corporation may be required to issue additional shares to satisfy common share purchases related to the employee stock ownership plan described in NOTE 18. The dilutive effect of stock options outstanding on average shares outstanding in the diluted earnings per share reported on the income statement were 236,230, 332,454 and 173,776 shares at December 31, 1999, 1998 and 1997 respectively.

During 1999, 3,921,668 shares of treasury stock were acquired at an average price of $13.09. During 1998, 86,800 shares of treasury stock were acquired at an average price of $12.22 and reissued to the leveraged ESOP. Treasury shares consisting of 188,570 and 131,138 were reissued during 1999 and 1998 upon exercise of stock options.

NOTE 16—*Income Taxes*

The income tax provision consists of:

	1999	1998	1997
Current tax provision for income exclusive of securities transactions:			
Federal	**$ 19,111**	$ 13,097	$ 13,384
State	**16**	(11)	238
Securities transactions	**198**	547	2,389
Total current tax provision	**19,325**	13,633	16,011
Deferred tax provision (benefit)	**287**	(1,404)	1,327
Total tax provision	**$ 19,612**	$ 12,229	$ 17,338

Temporary differences between financial statement carrying amounts and tax bases of assets and liabilities that represent significant portions of the deferred tax assets (liabilities) at December 31, 1999 and 1998, were as follows:

	1999	1998
Deferred tax assets:		
Allowance for credit losses	**$ 11,641**	$ 11,132
Postretirement benefits other than pensions	**985**	973
Accumulated depreciation	**242**	278
Unrealized loss on securities available for sale	**21,702**	-0-
Other	**827**	631
Total deferred tax assets	**35,397**	13,014
Deferred tax liabilities:		
Accumulated accretion of bond discount	**(250)**	(325)
Unrealized gain on securities available for sale	**-0-**	(1,184)
Lease financing deduction	**(9,372)**	(7,829)
Loan origination fees and costs	**(628)**	(849)
Basis difference in assets acquired	**(892)**	(1,143)
Pension expense	**(200)**	(233)
Other	**(262)**	(257)
Total deferred tax liabilities	**(11,604)**	(11,820)
Net deferred tax asset	**$ 23,793**	$ 1,194

The total tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. The differences are as follows:

	1999		1998		1997	
	Amount	**% of Pretax Income**	Amount	% of Pretax Income	Amount	% of Pretax Income
Tax at statutory rate	**$ 25,425**	**35.0**	$ 16,179	35.0	$ 19,907	35.0
Increase (decrease) resulting from:						
Effect of nontaxable income	**(5,247)**	**(7.2)**	(3,894)	(8.4)	(2,660)	(4.7)
Merger expenses	**-0-**	**0.0**	542	1.2	-0-	0.0
State income taxes	**16**	**0.0**	(11)	(0.0)	238	0.4
Other	**(582)**	**(0.8)**	(587)	(1.3)	(147)	(0.2)
Total tax provision	**$ 19,612**	**27.0**	$ 12,229	26.5	$ 17,338	30.5

NOTE 17—*Retirement Plans*

All employees with at least one year of service are eligible to participate in the employee stock ownership plan (“ESOP”). Contributions to the plan are determined by the board of directors, and are based upon a prescribed percentage of the annual compensation of all participants. The ESOP acquired 484,178 shares of the Corporation’s common stock in 1998 at a corresponding cost of $6,000, which the Corporation borrowed and concurrently loaned this amount to the ESOP. This amount represents leveraged and unallocated shares, and accordingly has been recorded as long-term debt and the offset as a reduction of the common shareholders’ equity. Compensation costs related to the plan were $1,555 in 1999, $1,068 in 1998 and $1,032 in 1997. (See NOTE 18).

The Corporation also has a savings plan pursuant to the provisions of section 401(k) of the Internal Revenue Code. Under the terms of the plan, each participant will receive an automatic employer contribution to the plan in an amount equal to 3% of compensation. Each participating employee may contribute up to 10% of compensation to the plan which up to 4% is matched 100% by the employer’s contribution. Prior to 1999, each participant could contribute up to 5% of compensation to the plan, which was matched by the employer’s contribution equal to 80% of the employee’s contribution. Employees of Southwest are covered by a 401(k) plan whereby each participant may contribute up to 10% of compensation to the plan of which up to 4% is matched 100% by the employer’s contribution. The Southwest Board of Directors may also authorize an annual discretionary contribution to the plan. The Southwest plan was not yet mergered into the Corporation’s plan as of December 31, 1999. The 401(k) plan expense was $2,328 in 1999, $2,261 in 1998 and $2,415 in 1997.

Upon shareholder approval at the regular 1998 meeting the Corporation established a “Supplemental Executive Retirement Plan” (“SERP”) to provide deferred compensation for a select group of management. The purpose of this plan is to restore some of the benefits lost to the highly compensated employees compared to other employees due to limits and restrictions incorporated into the Corporation’s 401(k) and ESOP plans. The Corporation’s 401(k) and ESOP plans include restrictions on maximum compensation, actual deferral percentage, actual contribution, maximum contribution and maximum salary reduction which are required in order to meet specific legal requirements.

Participants in the SERP may elect to contribute up to 10% of plan compensation (compensation in excess of limits of the Corporation’s 401(k) and ESOP plans) into the SERP, through salary reduction. The Corporation will make an elective contribution to the SERP equal to the elective

NOTE 17—*Retirement Plans (continued)*

contribution of the participant. Each participant of the SERP will also receive a matching contribution equal to 100% of the employee's elective contribution up to 4%, and an additional non-elective contribution from the employer equal to 8% of plan compensation. For 1998, each participant could make an elective contribution for up to 5% of plan compensation which was matched by an employers' contribution equal to 80% of the employee's contribution.

The SERP will continue to supplement the Corporation's 401(k) and ESOP plans and will therefore be modified at the same time and in the same respect as the basic plans are modified in future periods. The SERP plan expense was $153 in 1999 and $62 in 1998.

Pension Plan of Acquired Subsidiary

Southwest's noncontributory defined benefit pension plan covers all eligible employees and provides benefits that are based on each employee's years of service and compensation.

Net periodic pension cost of this plan for each of the last three years was as follows:

	1999	1998	1997
Service cost	**$ -0-**	$ 365	$ 327
Interest cost on projected benefit obligation	**394**	469	411
Actual return on plan assets	**(261)**	(425)	(1,042)
Net amortization and deferral	**(153)**	(179)	507
Net periodic pension cost	**$ (20)**	$ 230	$ 203

The following table sets forth the plan's funded status and the amounts recognized on the Corporation's Consolidated Balance Sheet as of December 31:

	1999	1998
Market value of plan assets, primarily registered investment companies, U.S. government and agency obligations and money markets	**$ 6,485**	$ 7,132
Projected benefit obligation	**5,765**	7,926
Plan assets (less) greater than projected benefit obligation	**720**	(794)
Unrecognized net transition asset	**(92)**	(123)
Unrecognized net loss (gain)	**(56)**	1,470
Prepaid pension expense recognized on the balance sheet	**$ 572**	$ 553
Actuarial present value of accumulated benefits, including vested benefits of $5,588 and $7,615	**$ 5,765**	$ 7,926

The following table sets forth the change in benefit obligation:

	1999	1998
Benefit obligation at beginning of year	**$ 7,926**	$ 6,794
Service cost	**-0-**	365
Interest cost	**394**	469
Benefit payment	**(908)**	(973)
Actuarial loss (gain)	**(1,647)**	5,343
Curtailment	**-0-**	(4,072)
Benefit obligation at end of year	**$ 5,765**	$ 7,926

The following table sets forth the change in plan assets:

	1999	1998
Fair value of plan assets at beginning of year	**$ 7,132**	$ 7,679
Return on plan assets	**261**	425
Employer contribution	**-0-**	-0-
Benefits paid	**(908)**	(972)
Fair value of plan assets at end of year	**$ 6,485**	$ 7,132

Assumptions used in determining the actuarial present value of the projected benefit obligation were as follows at December 31:

	1999	1998
Discount rates	**6.0%**	5.0%
Rates of increase in compensation levels	**N/A**	3.5
Expected long-term rate of return on assets	**6.5**	6.0

Effective December 31, 1998, participants' accrued benefit in the Southwest Bank Pension Plan was frozen. Participants became participants in the First Commonwealth Financial Corporation ESOP Plan with no lapse in credited service, and no loss of accrued benefits. The Southwest Bank Plan is expected to be terminated at some future date, with distribution made in accordance with Plan provisions and applicable regulations.

Postretirement Benefits other than Pensions for Acquired Subsidiary

Employees of Southwest were covered by a postretirement benefit plan.

Net periodic benefit cost of this plan was as follows:

	1999	1998
Service cost	**$ 13**	$ 61
Interest cost on projected benefit obligation	**197**	259
Amortization of transition obligation	**2**	55
Loss amortization	**48**	82
Net periodic benefit cost	**$ 260**	$ 457

The following table sets forth the plan's funded status and the amounts recognized on the Corporation's Consolidated Balance Sheet as of December 31:

	1999	1998
Accumulated postretirement benefit obligation:		
Retirees	**$ 2,762**	$ 2,941
Fully eligible active plan participants	**14**	155
Other plan participants	**183**	318
Total accumulated postretirement benefit obligation	**2,959**	3,414
Plan assets at fair value	**—**	—
Accumulated postretirement benefit obligation in excess of plan assets	**2,959**	3,414
Unrecognized transition obligation	**(21)**	(610)
Unrecognized net loss	**(56)**	(23)
Accrued benefit liability recognized on the balance sheet	**$ 2,882**	$ 2,781

The following table sets forth the change in benefit obligation:

	1999	1998
Benefit obligation at beginning of year	**$ 3,414**	$ 3,805
Service cost	**13**	61
Interest cost	**197**	259
Benefit payments	**(225)**	(193)
Actuarial loss (gain)	**(440)**	642
Curtailment	**-0-**	(1,160)
Benefit obligation at end of year	**$ 2,959**	$ 3,414

The discount rates used in determining the actuarial present value of the accumulated postretirement benefit obligation were 6.75% and 6.0% for 1999 and 1998 respectively. The health care cost trend rates used for 1999 were projected at an initial rate of 5.75% decreasing over time to an annual rate of 4.50% for grandfathered participants and an initial rate of 5.00% decreasing over time to an annual rate of 4.50% for non-grandfathered participants. The health care cost trend rates used for 1998 were projected at level rates of 5.75% for grandfathered participants and 5% for non-grandfathered participants. This grandfathering is related to cost sharing requirements for different groups of participants for these benefits.

The health care cost trend rate assumption can have a significant impact on the amounts reported for this plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 14	$ (12)
Effect on postretirement benefit obligation	$ 200	$ (179)

Southwest amended this plan to discontinue participation for active employees December 31, 1998 and to limit participation to employees retiring before January 1, 2002. As the result of this plan curtailment, an additional expense of $1,129 was recorded for 1998.

In February 1998, the FASB issued Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS No. 132") which is effective for years beginning after December 15, 1997. FAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans but does not change the measurement or recognition of those plans.

The adoption of FAS No. 132 did not have a material impact on the Corporation's financial condition or results of operations.

NOTE 18—*Unearned ESOP Shares*

The Corporation had borrowed amounts which were concurrently loaned to the First Commonwealth Financial Corporation Employee Stock Ownership Plan Trust ("ESOP") on the same terms. The combined balances of the ESOP related loans were $6,193 at December 31, 1999 and $8,007 at December 31, 1998.

The loans have been recorded as long-term debt on the Corporation's Consolidated Balance Sheets. A like amount of unearned ESOP shares was recorded as a reduction of common shareholders' equity. Unearned ESOP shares, included as a component of shareholders' equity, represents the Corporation's prepayment of future compensation expense. The shares acquired by the ESOP are held in a suspense account and will be released to the ESOP for allocation to the plan participants as the loan is reduced. Repayment of the loans are scheduled to occur over a six year period from contributions to the ESOP by the Corporation and dividends on unallocated ESOP shares.

The following is an analysis of ESOP shares held in suspense:

(See NOTE 1 for the definition of "old" and "new shares").

	Total	Old Shares	New Shares
Shares in suspense December 31, 1997	342,502	202,398	140,104
Shares acquired during 1998	484,178	-0-	484,178
Shares allocated during 1998	(96,066)	(23,520)	(72,546)
Shares in suspense December 31, 1998	730,614	178,878	551,736
Shares allocated during 1999	(131,927)	(32,300)	(99,627)
Shares in suspense December 31, 1999	598,687	146,578	452,109

The fair market value of the new shares remaining in suspense was approximately $5,425 and $6,759 at December 31, 1999 and 1998 respectively.

Interest on ESOP loans was $460 in 1999, $255 in 1998 and $211 in 1997. During 1999, 1998 and 1997, dividends on unallocated shares in the amount of $369, $196 and $213 respectively were used for debt service while all dividends on allocated shares were allocated to the participants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19—*Stock Option Plan*

At December 31, 1999, the Corporation had a stock-based compensation plan, which is described below. All of the exercise prices and related number of shares have been restated to reflect the previously described stock split. The plan permits the executive compensation committee to grant options for up to one million shares of the Corporation's common stock through October 15, 2005. Although the vesting requirements and term of future options granted are at the discretion of the executive compensation committee, all options granted during 1997 became vested at December 31, 1997 and expire ten years from the grant date, all options granted during 1998 became vested at December 31, 1998 and expire ten years from the grant date and all options granted during 1999 became vested on December 31, 1999 and expire ten years from the grant date. The Corporation has elected, as permitted by FAS No. 123, to apply APB Opinion 25 and related Interpretations in accounting for its plan. Accordingly, no compensation cost has been recognized for its stock options outstanding. Had compensation cost for the Corporation's stock option plan been determined based upon the fair value at the grant dates for awards under the plan consistent with the method of FASB Statement 123, the Corporation's net income and earnings per share would have been reduced to the pro forma amounts shown below:

	1999		1998		1997	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net Income	**$ 53,030**	**$ 52,197**	$ 33,374	$ 33,374	$ 39,539	$ 33,597
Basic earnings per share	**$ 0.88**	**$ 0.87**	$ 0.54	$ 0.54	$ 0.64	$ 0.54
Diluted earnings per share	**$ 0.88**	**$ 0.86**	$ 0.54	$ 0.54	$ 0.64	$ 0.54

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes options pricing model with the following weighted average assumptions used:

	1999	1998	1997
Dividend yield	**4.29% per annum**	3.75% per annum	2.5% per annum
Expected volatility	**31.4%**	90.0%	28.0%
Risk-free interest rate	**6.3%**	5.1%	5.6%
Expected option life	**9.1 years**	9.1 years	5.7 years

Under the Corporation's 1995 Stock Option Plan, the Corporation may grant options to its executives and, as amended during 1999, non-employee directors, for up to one million shares of common stock. The Corporation also assumed the Stock Options of United National Bank Corporation ("Unitas") and Reliable Financial Corporation ("RFC") upon the merger of these financial institutions into the Corporation in 1994.

A summary of the status of the Corporation's outstanding stock options as of December 31, 1999, 1998 and 1997 and changes for the years ending on those dates is presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**1,306,346**	**$ 10.53**	1,052,548	$ 8.75	466,616	$ 8.05
Granted	**610,416**	**$ 11.56**	404,016	$14.69	624,560	$ 9.25
Exercised	**(188,570)**	**$ 8.66**	(131,138)	$ 8.72	(5,600)	$ 3.22
Forfeited	**(48,014)**	**$ 12.08**	(19,080)	$ 9.81	(33,028)	$ 9.22
Outstanding at end of year	**1,680,178**	**$ 11.07**	1,306,346	$10.53	1,052,548	$ 8.75
Exercisable at end of year	**1,680,178**	**$ 11.07**	956,058	$11.06	690,038	$ 8.47

The following table summarizes information about the stock options outstanding at December 31, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted-Average Remaining Contract Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/99	Weighted-Average Exercise Price
$ 2.50-2.99	20,328	2.3	$ 2.71	20,328	$ 2.71
$ 4.00-4.99	8,800	3.2	$ 4.04	8,800	$ 4.04
$ 9.1875-9.25	697,067	7.0	$ 9.22	697,067	$ 9.22
$ 11.1825-11.5625	596,083	9.1	$ 11.56	596,083	$11.56
$ 14.6875	357,900	8.2	$ 14.69	357,900	$14.69
Total	1,680,178		$ 11.07	1,680,178	$11.07

NOTE 20—*Commitments and Contingent Liabilities*

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

NOTE 21—*Related Party Transactions*

Some of the Corporation's or its subsidiaries' directors, executive officers, principal shareholders and their related interests, had transactions with the subsidiary banks in the ordinary course of business. All loans and commitments to loans in such transactions were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than the normal risk of collectibility nor do they present other unfavorable features. It is anticipated that further such extensions of credit will be made in the future.

The following is an analysis of loans to those parties whose aggregate loan balances exceeded $60 during 1999.

Balances December 31, 1998	$ 10,308
Advances	7,889
Repayments	(8,889)
Other	(904)
Balances December 31, 1999	$ 8,404

"Other" primarily reflects the change in those classified as a "related party" as a result of mergers, resignations and retirements.

NOTE 22—*Regulatory Restrictions and Capital Adequacy*

The amount of funds available to the parent from its subsidiary banks is limited by restrictions imposed on all financial institutions by banking regulators. At December 31, 1999, dividends from subsidiary banks were restricted not to exceed $79,092. These restrictions have not had, and are not expected to have, a significant impact on the Corporation's ability to meet its cash obligations.

The Corporation is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and its banking subsidiaries must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios of total and Tier I capital (common and certain other "core" equity capital) to risk weighted assets, and of Tier I capital to average assets. As of December 31, 1999, the Corporation and its banking subsidiaries meet all capital adequacy requirements to which they are subject.

As of December 31, 1999, the most recent notifications from the Federal Reserve Board and Federal Deposit Insurance Corporation categorized First Commonwealth Bank and Southwest Bank as well capitalized under the regulatory framework for prompt corrective action. To be considered as well capitalized, the banks must maintain minimum total risk-based capital, Tier I risk-based capital and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		Regulatory Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1999						
Total Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation (a)	$ 384,368	14.4%	$ 213,009	8.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 287,968	13.7%	$ 168,687	8.0%	$ 210,859	10.0%
Southwest Bank	$ 92,933	17.6%	$ 42,308	8.0%	$ 52,886	10.0%
Tier I Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation (a)	$ 351,085	13.2%	$ 106,504	4.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 261,744	12.4%	$ 84,344	4.0%	$ 126,515	6.0%
Southwest Bank	$ 86,322	16.3%	$ 21,154	4.0%	$ 31,731	6.0%
Tier I Capital to Average Assets						
First Commonwealth Financial Corporation (a)	$ 351,085	7.4%	$ 141,488	3.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 261,744	7.2%	$ 108,724	3.0%	$ 181,207	5.0%
Southwest Bank	$ 86,322	8.2%	$ 31,790	3.0%	$ 52,983	5.0%
As of December 31, 1998						
Total Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 372,538	15.8%	$ 188,929	8.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 269,259	14.4%	$ 149,993	8.0%	$ 187,492	10.0%
Southwest Bank	$ 86,040	18.4%	$ 37,364	8.0%	$ 46,705	10.0%
Tier I Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 342,999	14.5%	$ 94,464	4.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 245,823	13.1%	$ 74,997	4.0%	$ 112,495	6.0%
Southwest Bank	$ 80,184	17.2%	$ 18,682	4.0%	$ 28,023	6.0%
Tier I Capital to Average Assets						
First Commonwealth Financial Corporation	$ 342,999	8.6%	$ 119,491	3.0%	Not Applicable	Not Applicable
First Commonwealth Bank	$ 245,823	8.0%	$ 92,383	3.0%	$ 153,972	5.0%
Southwest Bank	$ 80,184	9.2%	$ 26,274	3.0%	$ 43,790	5.0%

(a) Includes $35,000 of Company obligated mandatorily redeemable capital securities of subsidiary trust described in NOTE 13 which qualify as Tier I Capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands)

NOTE 23—*Condensed Financial Information of First Commonwealth Financial Corporation (parent company only)*

Balance Sheets

	December 31,	
	1999	1998
Assets		
Cash	**$ 5,122**	$ 4,501
Securities available for sale	**103**	145
Loans to affiliated parties	**480**	498
Investment in subsidiaries	**330,400**	348,597
Investment in jointly-owned company	**3,477**	3,059
Premises and equipment	**6,992**	6,022
Dividends receivable from subsidiaries	**2,786**	2,914
Receivable from subsidiaries	**3,574**	3,588
Other assets	**2,711**	526
Total assets	**$ 355,645**	$ 369,850
Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	**$ 2,544**	$ 1,352
Dividends payable	**8,141**	5,086
Loans payable	**22,193**	8,007
Subordinated debentures payable	**36,083**	-0-
Shareholders' equity	**286,684**	355,405
Total liabilities and shareholders' equity	**$ 355,645**	$ 369,850

Statements of Income

	Years Ended December 31,		
	1999	1998	1997
Interest and dividends	**$ 149**	$ 251	$ 94
Dividends from subsidiaries	**36,506**	28,559	37,023
Interest expense	**(1,758)**	(255)	(214)
Net securities gains	**57**	203	382
Other revenue	**15**	1,008	16
Operating expenses	**(11,476)**	(8,111)	(8,262)
Income before taxes and equity in undistributed earnings of subsidiaries	**23,493**	21,655	29,039
Applicable income tax benefits	**4,421**	2,348	2,610
Income before equity in undistributed earnings of subsidiaries	**27,914**	24,003	31,649
Equity in undistributed earnings of subsidiaries	**25,116**	9,371	7,890
Net income	**$ 53,030**	$ 33,374	$ 39,539

Statements of Cash Flows

	Years Ended December 31,		
	1999	1998	1997
Operating Activities			
Net income	**$ 53,030**	$33,374	$39,539
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,655**	1,470	1,522
Net (gains) losses on sale of assets	**144**	(203)	(381)
Decrease (increase) in prepaid income taxes	**(242)**	13	229
Undistributed equity in subsidiaries	**(25,116)**	(9,371)	(7,890)
Other - net	**(818)**	(1,642)	(403)
Net cash provided by operating activities	**28,653**	23,641	32,616
Investing Activities			
Transactions with securities available for sale:			
Purchases of investment securities	**-0-**	(10,091)	(6,734)
Sales of investment securities	**102**	13,709	5,419
Net change in loans to affiliated parties	**17**	(28)	48
Purchases of premises and equipment	**(1,476)**	(2,036)	(1,005)
Additional net investment in subsidiary	**(2,406)**	(1,770)	-0-
Sale of subsidiary	**1,709**	-0-	-0-
Net cash used by investing activities	**(2,054)**	(216)	(2,272)
Financing Activities			
Net decrease in short-term borrowings	**-0-**	-0-	(103)
Issuance of subordinated debentures	**36,083**	-0-	-0-
Issuance of other long-term debt	**16,000**	-0-	-0-
Discount on dividend reinvestment plan purchases	**(358)**	(1,016)	(630)
Treasury stock acquired	**(51,331)**	(2,123)	(5,908)
Treasury stock reissued	**1,453**	2,217	16
Cash dividends paid	**(27,825)**	(25,746)	(21,739)
Net cash used by financing activities	**(25,978)**	(26,668)	(28,364)
Net increase (decrease) in cash	**621**	(3,243)	1,980
Cash at beginning of year	**4,501**	7,744	5,764
Cash at end of year	**$ 5,122**	$ 4,501	$ 7,744

Supplemental disclosures

Proceeds from the issuance of subordinated debentures and other long-term debt during 1999 were used primarily to fund the purchase of 3,819,420 shares of the Corporation's common stock pursuant to a "modified Dutch Auction" tender offer.

Noncash investing and financing activities:

	1999	1998	1997
ESOP borrowings	$ -0-	$ 6,000	$ -0-
ESOP loan reductions	$ 1,814	$ 429	$ 1,038

The Corporation borrowed $6,000 in 1998 and concurrently loaned this amount to the ESOP on identical terms. The loan was recorded as long-term debt and the offset was recorded as a reduction of the common shareholders' equity. Loan payments in the amount of $1,814 in 1999, $429 in 1998 and $1,038 in 1997 were made by the ESOP thereby reducing the outstanding amount related to unearned ESOP shares to $6,193 at December 31, 1999.

NOTE 24—*Fair Values of Financial Instruments*

Below are various estimated fair values at December 31, 1999 and 1998, as required by Statement of Financial Accounting Standards No. 107 (“FAS No. 107”). Such information, which pertains to the Corporation’s financial instruments, is based on the requirements set forth in FAS No. 107 and does not purport to represent the aggregate net fair value of the Corporation. It is the Corporation’s general practice and intent to hold its financial instruments to maturity, except for certain securities designated as securities available for sale, and not to engage in trading activities. Many of the financial instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Therefore, the Corporation had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and the methodologies in absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

The following methods and assumptions were used by the Corporation in estimating financial instrument fair values:

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

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

Loans receivable: Fair values of variable rate loans subject to frequent repricing and which entail no significant credit risk are based on the carrying values. The estimated fair values of other loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest is considered a reasonable estimate of fair value.

Off-balance-sheet instruments: Many of the Corporation’s off-balance-sheet instruments, primarily loan commitments and standby letters of credit, are expected to expire without being drawn upon, therefore the commitment amounts do not necessarily represent future cash requirements. Management has determined that due to the uncertainties of cash flows and difficulty in predicting the timing of such cash flows, fair values were not estimated for these instruments.

Deposit liabilities: For deposits which are payable on demand at the reporting date, representing all deposits other than time deposits, management estimates that the carrying value of such deposits is a reasonable estimate of fair value. The carrying amounts of variable rate time deposit accounts and certificates of deposit approximate their fair values at the report date. Fair values of fixed rate time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities. The carrying amount of accrued interest approximates its fair value.

Short-term borrowings: The carrying amounts of short-term borrowings such as Federal funds purchased, securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and treasury, tax and loan notes approximate their fair values.

Long-term debt: The carrying amounts of variable rate debt approximate their fair values at the report date. Fair values of fixed rate debt are estimated by discounting the future cash flows using the Corporation’s estimated incremental borrowing rate for similar types of borrowing arrangements.

The following table presents carrying amounts and estimated fair values of the Corporation’s financial instruments at December 31, 1999 and 1998.

	1999		1998	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and due from banks	**$ 92,673**	**$ 92,673**	$ 96,615	$ 96,615
Interest-bearing deposits with banks	**1,218**	**1,218**	1,914	1,914
Federal funds sold	**8,700**	**8,700**	1,000	1,000
Securities available for sale	**1,144,042**	**1,144,042**	1,042,636	1,042,636
Investments held to maturity	**448,347**	**435,000**	482,696	486,185
Loans, net of allowance	**2,466,520**	**2,547,096**	2,342,546	2,389,039
Financial liabilities				
Deposits	**2,948,829**	**2,913,140**	2,931,131	2,946,535
Short-term borrowings	**424,827**	**424,827**	140,547	140,547
Long-term debt	**638,355**	**581,254**	630,850	635,252

QUARTERLY SUMMARY OF FINANCIAL DATA - UNAUDITED

(Dollar Amounts in Thousands, except per share data)

The unaudited quarterly results of operations, restated to reflect pooling of interests for the years ended December 31, 1999 and 1998 are as follows:

	1999			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Interest income	**$ 71,801**	**$ 73,636**	**$ 75,360**	**$76,710**
Interest expense	**36,740**	**36,989**	**38,154**	**40,770**
Net interest income	**35,061**	**36,647**	**37,206**	**35,940**
Provision for credit losses	**2,213**	**2,337**	**2,363**	**2,537**
Net interest income after provision for credit losses	**32,848**	**34,310**	**34,843**	**33,403**
Securities gains	**563**	**-0-**	**2**	**-0-**
Other operating income	**7,319**	**9,944**	**6,581**	**6,444**
Other operating expenses	**24,191**	**23,490**	**22,870**	**23,064**
Income before income taxes	**16,539**	**20,764**	**18,556**	**16,783**
Applicable income taxes	**4,534**	**5,938**	**4,804**	**4,336**
Net income	**$ 12,005**	**$ 14,826**	**$ 13,752**	**$12,447**
Basic earnings per share (a)	**$ 0.20**	**$ 0.24**	**$ 0.22**	**$ 0.22**
Diluted earnings per share (a)	**$ 0.20**	**$ 0.24**	**$ 0.22**	**$ 0.21**
Average shares outstanding (a)	**61,152,708**	**61,203,388**	**61,290,374**	**57,713,182**
Average shares outstanding assuming dilution (a)	**61,432,570**	**61,376,932**	**61,491,946**	**58,003,391**

	1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 68,450	$ 72,016	$ 72,408	$70,547
Interest expense	35,201	38,023	38,394	36,664
Net interest income	33,249	33,993	34,014	33,883
Provision for credit losses	2,475	2,625	2,857	7,092
Net interest income after provision for credit losses	30,774	31,368	31,157	26,791
Securities gains (losses)	982	-0-	1,657	(1,182)
Other operating income	5,056	5,833	5,798	8,194
Merger and other related charges	-0-	-0-	-0-	7,915
Other operating expenses	22,930	22,843	23,005	23,508
Income before taxes and extraordinary items	13,882	14,358	15,607	2,380
Applicable income taxes	3,900	3,864	4,063	402
Net income before extraordinary items	9,982	10,494	11,544	1,978
Extraordinary items, net of income taxes	-0-	-0-	-0-	(624)
Net income	$ 9,982	$ 10,494	$ 11,544	$ 1,354
Basic earnings per share, before extraordinary items (a)	$ 0.16	$ 0.17	$ 0.19	$ 0.03
Diluted earnings per share, before extraordinary items (a)	$ 0.16	$ 0.17	$ 0.19	$ 0.03
Average shares outstanding (a)	61,607,954	61,545,594	61,503,208	60,685,824
Average shares outstanding assuming dilution (a)	62,023,294	61,901,396	61,796,158	60,953,602

(a) Per share amounts have been restated to reflect the two-for-one stock split effected in the form of a 100% stock dividend declared on October 19, 1999.

SELECTED FINANCIAL DATA

(Dollar Amounts in Thousands, except per share data)

The following selected financial data is not covered by the auditor's report and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, and with the consolidated financial statements and related notes. All amounts have been restated to reflect the poolings of interests.

	Years Ended December 31,				
	1999	1998	1997	1996	1995
Interest income	**$ 297,507**	$ 283,421	$ 254,772	$ 235,188	$ 227,182
Interest expense	**152,653**	148,282	124,427	109,189	103,019
Net interest income	**144,854**	135,139	130,345	125,999	124,163
Provision for credit losses	**9,450**	15,049	10,152	6,301	5,575
Net interest income after provision for credit losses	**135,404**	120,090	120,193	119,698	118,588
Securities gains (losses)	**565**	1,457	6,825	1,599	(603)
Other operating income	**30,288**	24,881	18,716	17,359	15,996
Merger and related charges	**-0-**	7,915	-0-	-0-	-0-
Other operating expenses	**93,615**	92,286	88,857	85,299	83,689
Income before taxes and extra-ordinary items	**72,642**	46,227	56,877	53,357	50,292
Applicable income taxes	**19,612**	12,229	17,338	16,164	15,728
Net income before extraordinary items	**53,030**	33,998	39,539	37,193	34,564
Extraordinary items (less applicable taxes of $336)	**-0-**	(624)	-0-	-0-	-0-
Net income	**$ 53,030**	$ 33,374	$ 39,539	$ 37,193	$ 34,564
Per Share Data (a)					
Net income before extraordinary items	**$ 0.88**	$ 0.55	$ 0.64	$ 0.60	$ 0.55
Extraordinary items	**0.00**	(0.01)	0.00	0.00	0.00
Net income	**$ 0.88**	$ 0.54	$ 0.64	$ 0.60	$ 0.55
Dividends declared	**$ 0.515**	$ 0.445	$ 0.41	$ 0.37	$ 0.33
Average shares outstanding	**60,333,092**	61,333,572	61,671,898	62,310,086	62,472,404
Per Share Data Assuming Dilution (a)					
Net income before extraordinary items	**$ 0.88**	$ 0.55	$ 0.64	$ 0.60	$ 0.55
Extraordinary items	**0.00**	(0.01)	0.00	0.00	0.00
Net income	**$ 0.88**	$ 0.54	$ 0.64	$ 0.60	$ 0.55
Dividends declared	**$ 0.515**	$ 0.445	$ 0.41	$ 0.37	$ 0.33
Average shares outstanding	**60,569,322**	61,666,026	61,845,674	62,381,790	62,563,920
At End of Period					
Total assets	**$ 4,340,846**	$ 4,096,789	$ 3,668,557	$ 3,339,996	$ 3,075,123
Investment securities	**1,592,389**	1,525,332	1,015,798	901,411	960,588
Loans and leases, net of unearned income	**2,500,059**	2,374,850	2,436,337	2,236,523	1,935,938
Allowance for credit losses	**33,539**	32,304	25,932	25,234	23,803
Deposits	**2,948,829**	2,931,131	2,884,343	2,756,111	2,586,545
Company obligated mandatorily redeemable capital securities of subsidiary trust	**35,000**	-0-	-0-	-0-	-0-
Other long-term debt	**603,355**	630,850	193,054	52,737	7,168
Shareholders' equity	**286,683**	355,405	354,323	341,522	329,486
Key Ratios					
Return on average assets	**1.25%**	0.85%	1.15%	1.17%	1.14%
Return on average equity	**15.44%**	9.13%	11.31%	11.07%	11.02%
Net loans to deposit ratio	**83.64%**	79.92%	83.57%	80.23%	73.93%
Dividends per share as a percent of net income per share	**58.52%**	82.41%	64.06%	61.67%	60.00%
Average equity to average assets ratio	**8.10%**	9.28%	10.16%	10.53%	10.38%

(a) Per share amounts have been restated to reflect the two-for-one stock split effected in the form of a 100% stock dividend declared on October 19, 1999.

Introduction

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 (the "Corporation") for the years ended December 31, 1999, 1998 and 1997 and are intended to supplement, and should be read in conjunction with, the consolidated financial statements and related footnotes.

In addition to historical information, this discussion and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

The Corporation acquired Southwest National Corporation and its subsidiary ("Southwest") effective December 31, 1998. The merger was accounted for as a pooling of interests and accordingly, all financial statements have been restated as though the merger had occurred at the beginning of the earliest period presented. During the fourth quarter of 1997 the Corporation formed First Commonwealth Insurance Agency ("FCIA") as a subsidiary of First Commonwealth Bank ("FCB"), a commercial banking subsidiary of the Corporation. FCIA began marketing a wide range of insurance and annuity products to the Corporation's retail and commercial customers beginning January 1, 1998.

On October 19, 1999, the Corporation's Board of Directors approved a 2-for-1 stock split effected in the form of a 100% stock dividend. Shareholders of record at the close of business November 4, 1999 received one additional share for each share held. The additional shares were distributed on November 18, 1999. Share data for all periods presented has been restated to reflect the stock split as if it had occurred at the beginning of the earliest period presented.

Results of Operations

Net income in 1999 was $53.0 million, an increase of $19.7 million from the 1998 level of $33.4 million and compared to $39.5 million reported in 1997. Basic earnings per share increased $0.34 per share in 1999 to $0.88. The 1998 period was impacted negatively by a number of merger and other related charges totaling $7.9 million which resulted in a decrease of $0.13 per share on a pre-tax basis for 1998. These charges include merger expenses for the acquisition of Southwest National Corporation, early retirement and postretirement benefit accruals and premises and equipment expenses to standardize depreciation methods. Excluding merger and related charges, gains on sale of loans and branches, securities transactions and extraordinary items, basic earnings per share increased $0.22 or 36.67% for 1999 compared to 1998. Extraordinary items for 1998 resulted from a single transaction whereby the Corporation incurred a cost of $960 thousand for the prepayment of FHLB term borrowings. Increases in net interest income increased basic earnings per share by $0.20 per share in 1999 and $0.09 per share in 1998. Increases in employee costs decreased earnings per share by $0.03 in both the 1999 and 1998 periods. Return on average assets was 1.25% and return on average equity was 15.44% during 1999 compared to 0.85% and 9.13%, respectively for 1998. Return on average assets was 1.15% during 1997 while return on average equity was 11.31%.

The following is an analysis of the impact of changes in net income on earnings per share:

	1999 vs. 1998	1998 vs. 1997
Net income per share, prior year	$ 0.54	$ 0.64
Increase (decrease) from changes in:		
Net interest income	0.20	0.09
Provision for credit losses	0.09	(0.08)
Security transactions	(0.01)	(0.09)
Other income	0.11	0.10
Salaries and employee benefits	(0.03)	(0.03)
Occupancy and equipment costs	0.00	0.00
Merger and other related charges	0.13	(0.13)
Other expenses	(0.03)	(0.03)
Provision for income taxes	(0.13)	0.08
Extraordinary items, net of tax	0.01	(0.01)
Net income per share	$ 0.88	$ 0.54

Net interest income, the most significant component of earnings, is the amount by which interest generated from earning assets exceeds interest expense on liabilities. Net interest income was $144.9 million in 1999 compared to $135.1 million in 1998 and $130.3 million in 1997. The following is an analysis of the average balance sheets and net interest income for each of the three years in the period ended December 31, 1999.

Average Balance Sheets and Net Interest Analysis
(Dollar Amounts in Thousands)

	1999			1998			1997		
	Average Balance	**Income/ Expense**	**Yield or Rate(a)**	Average Balance	Income/ Expense	Yield or Rate(a)	Average Balance	Income/ Expense	Yield or Rate(a)
Assets									
Interest-earning assets:									
Time deposits with banks	**$ 1,844**	**$ 121**	**6.56%**	$ 3,692	$ 230	6.23%	$ 4,663	$ 236	5.06%
Investment securities	**1,608,467**	**100,853**	**6.59**	1,271,319	78,205	6.43	931,017	55,490	6.24
Federal funds sold	**2,097**	**105**	**5.01**	35,521	1,893	5.33	12,653	689	5.45
Loans (b) (c), net of unearned income	**2,408,450**	**196,428**	**8.27**	2,439,436	203,093	8.43	2,330,657	198,357	8.60
Total interest-earning assets	**4,020,858**	**297,507**	**7.59**	3,749,968	283,421	7.72	3,278,990	254,772	7.91
Noninterest-earning assets:									
Cash	**80,716**			78,999			77,259		
Allowance for credit losses	**(33,757)**			(27,388)			(25,510)		
Other assets	**174,063**			138,114			110,112		
Total noninterest-earning assets	**221,022**			189,725			161,861		
Total Assets	**$ 4,241,880**			$ 3,939,693			$ 3,440,851		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	**$ 386,124**	**$ 8,375**	**2.17%**	$ 341,835	$ 7,579	2.22%	$ 271,321	$ 5,042	1.86%
Savings deposits (d)	**712,637**	**17,769**	**2.49**	715,814	21,379	2.99	737,725	22,752	3.08
Time deposits	**1,499,857**	**77,187**	**5.15**	1,530,491	85,002	5.55	1,517,972	84,806	5.59
Short-term borrowings	**279,269**	**13,832**	**4.95**	195,334	10,214	5.23	156,470	8,108	5.18
Long-term debt	**643,746**	**35,490**	**5.51**	430,677	24,108	5.60	65,820	3,719	5.65
Total interest-bearing liabilities	**3,521,633**	**152,653**	**4.33**	3,214,151	148,282	4.61	2,749,308	124,427	4.53
Noninterest-bearing liabilities and capital:									
Noninterest-bearing demand deposits (d)	**345,311**			328,720			311,304		
Other liabilities	**31,439**			31,177			30,541		
Shareholders' equity	**343,497**			365,645			349,698		
Total noninterest-bearing funding sources	**720,247**			725,542			691,543		
Total Liabilities and Shareholders' Equity	**$ 4,241,880**			$ 3,939,693			$ 3,440,851		
Net Interest Income and Net Yield On Interest-earning Assets		**$ 144,854**	**3.80%**		$135,139	3.77%		$ 130,345	4.12%

(a) Yields on interest-earning assets have been computed on a tax equivalent basis using the 35% Federal income tax statutory rate.
(b) Income on nonaccrual loans is accounted for on the cash basis, and the loan balances are included in interest-earning assets.
(c) Loan income includes net loan fees.
(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.

Both interest income and interest expense increased over 1998 levels as volume increases for 1999 were only partially offset by rate decreases. Average interest-earning assets increased $270.9 million while average interest-bearing liabilities increased $307.5 million in 1999. Asset yields, on a tax-equivalent basis, decreased 13 basis points (0.13%) during 1999 to 7.59%, from 7.72% reported in 1998 and compared to 7.91% reported in 1997. The cost of funds for 1999 decreased 28 basis points (0.28%) from 1998 costs of 4.61% and compared to costs of 4.53% for 1997.

Interest and fees on loans decreased $6.7 million for 1999 over 1998 levels and included decreases in interest on mortgage loans of $6.4 million and decreases in interest on

credit card loans of $1.4 million which were primarily the result of loan sales. Average mortgage loans for the 1999 period decreased $88.7 million compared to 1998 averages, as a result of the sale of $52.5 million and $42.2 million of 1-4 family residential mortgage loans in the fourth quarter of 1998 and the first quarter of 1999, respectively. Average credit card loans for the 1999 period decreased $9.8 million as $20.4 million of consumer credit card loans were sold in the second quarter of 1999. The decreased income from mortgage and credit card loans in 1999 was partially offset by increased income from commercial loans as enhanced marketing strategies enabled the Corporation to capitalize on lending opportunities with small to mid-sized commercial customers.

The loan portfolio also reflected decreases due to rate of $4.9 million during 1999 as the decline in loan yields which began in the fourth quarter of 1995 has continued throughout 1998 and 1999. Loan yields declined 16 basis points (0.16%) during 1999 to 8.27% from 8.43% reported for 1998 and compared to 8.60% during 1997. The loan portfolio continued to be impacted by loan refinancings and loans maturing at higher interest rates than current market rates. Loan refinancings and prepayments slowed throughout 1999 as market interest rates rose. Mortgage portfolio yields rose 4 basis points (0.04%) for 1999 compared to 1998 as yields on innovative loan products introduced in previous years began to approach the average yield of the mortgage portfolio as these products aged and introductory interest rates were no longer offered on aged loans.

Interest income on investments increased $22.6 million for 1999 compared to 1998 as average balances of U.S. government agency securities and asset backed securities for 1999 increased $183.6 million and $66.9 million, respectively over 1998 averages. These securities purchases were part of a capital management leveraging strategy whereby borrowings from the Federal Home Loan Bank classified as long-term debt were invested in U.S. government agency securities and mortgage backed securities. Interest income for 1999 was also impacted by volume increases from corporate securities, primarily investments in trust preferred securities.

Yields on investments for 1999 were 6.59% compared to 6.43% for 1998 and 6.24% for 1997. Yields on investments for the 1999 period reflected an increase in yields on U.S. government agency securities of 11 basis points (0.11%) and an increase in yields on corporate securities of 119 basis points (1.19%) for the 1999 period compared to 1998. Prepayment speeds of mortgage backed securities ("MBS") which had accelerated during 1998 began to slow during the 1999 period as interest rates rose. The primary risk of owning MBS relates to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact on prepayment speeds. As interest rates increase, prepayment speeds generally decline, resulting in a longer average life of a MBS. Conversely as interest rates decline, prepayment speeds increase, resulting in a shorter average life of a MBS. Using computer simulation models, the Corporation tests the average life and yield volatility of all MBSs under various interest rate scenarios on a continuing basis to insure that volatility falls within acceptable limits. The Corporation holds no "high risk" securities nor does the Corporation own any securities of a single issuer exceeding 10% of shareholders' equity other than U.S. government and agency securities.

Interest on deposits decreased $10.6 million for 1999 compared to 1998 as rate decreases were only partially offset by volume increases. Interest on total savings deposits decreased $4.2 million and interest on time deposits decreased $7.9 million for 1999 due to rate decreases and a decline in the interest rate environment, particularly early in the year. Deposit costs for total savings deposits reflected a decrease of 36 basis points (0.36%) for 1999 while the cost of time deposits reflected a decrease of 41 basis points (0.41%) over 1998 costs, primarily as a result of active interest rate management. Volume increases for deposits in 1999 occurred primarily in products offering higher interest rates than traditional products such as the Corporation's "American Dream" savings product utilized by consumers and the secured cash manager product utilized by municipalities. The secured cash manager product allows the municipality to sweep excess balances from noninterest-bearing accounts into an interest-bearing account which offers higher interest rates than traditional N.O.W. accounts. Average balances of noninterest-bearing demand deposits for 1999 reflected an increase of $16.6 million compared to 1998 averages.

Interest expense on short-term borrowings increased $3.6 million during 1999 primarily as a result of increases in average borrowings of $83.9 million over 1998 averages. Increases in interest expense on short-term borrowings as a result of volume increases during 1999 were partially offset by rate decreases as the cost of short-term borrowings decreased 28 basis points (0.28%) over 1998 costs.

Interest expense on long-term debt increased $11.4 million for the 1999 period compared to 1998 primarily as a result of increases in average borrowings of $213.1 million over 1998 averages. The long-term debt increase for 1999 included borrowings from the Federal Home Loan Bank with maturities of up to 10 years to be utilized as part of the above mentioned capital management leveraging strategy. The average spread of this leverage strategy was approximately 1.17% during the 1999 period and 1.05%

during the 1998 period. During 1999 and 1998 interest income before taxes on these investments exceeded the funding costs by $8.0 million and $4.6 million, respectively. Total long-term debt for 1999 also included increases resulting from the funding of the repurchase of 3.8 million shares of the Corporation's common stock through a "modified Dutch Auction" tender offer. The aggregate amount of $49.7 million paid by the Corporation in connection with the repurchase of common shares was funded through the issuance of capital securities and the issuance of a bank loan from an unrelated financial institution. Capital securities in the amount of $35 million were issued during 1999 bearing an interest rate of 9.50% and maturing in thirty years. Interest expense on capital securities for 1999 was $1.0 million. The parent company incurred a $16 million bank loan during 1999 primarily to fund the remaining cost of the stock repurchase. (SEE NOTE 13 to the financial statements for a description of the Company obligated mandatorily redeemable capital securities of subsidiary trust and NOTE 14 to the financial statements for a description of the bank loan outstanding).

Net interest margin (net interest income, on a tax-equivalent basis as a percentage of average earning assets), was 3.80% during 1999 compared to 3.77% in 1998 and 4.12% in 1997. The Corporation's use of computer modeling to manage interest rate risk is described in the "Interest Sensitivity" section of this discussion herein.

The following table shows the effect of changes in volumes and rates on interest income and interest expense.

Analysis of Year-to-Year Changes in Net Interest Income
(Dollar Amounts in Thousands)

	1999 Change from 1998			1998 Change from 1997		
	Total Change	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate
Interest-earning assets:						
Time deposits with banks	$ (109)	$ (115)	$ 6	$ (6)	$ (49)	$ 43
Securities	22,648	21,682	966	22,715	21,241	1,474
Federal funds sold	(1,788)	(1,781)	(7)	1,204	1,246	(42)
Loans	(6,665)	(2,613)	(4,052)	4,736	9,351	(4,615)
Total interest income	14,086	17,173	(3,087)	28,649	31,789	(3,140)
Interest-bearing liabilities:						
Deposits	(10,629)	(815)	(9,814)	1,360	1,334	26
Short-term borrowings	3,618	4,389	(771)	2,106	2,014	92
Long-term debt	11,382	11,927	(545)	20,389	20,613	(224)
Total interest expense	4,371	15,501	(11,130)	23,855	23,961	(106)
Net interest income	$ 9,715	$ 1,672	$ 8,043	$ 4,794	$ 7,828	$ (3,034)

The provision for credit losses is an amount added to the allowance against which credit losses are charged. The amount of the provision is determined by management based upon its assessment of the size and quality of the loan portfolio and the adequacy of the allowance in relation to the risks inherent within the loan portfolio. The provision for credit losses was $9.5 million in 1999 compared to $15.0 million in 1998 and $10.2 million in 1997. The 1998 period contains an additional provision of $4.2 million recorded in the fourth quarter of 1998 to reflect changing economic conditions. The allowance for credit losses was $33.5 million at December 31, 1999, for a ratio of 1.34% of actual loans outstanding. The ratio of the allowance for credit losses to total loans outstanding as of December 31, 1999 has decreased slightly from the 1.36% reported as of December 31, 1998, but this ratio remains above historic levels. Net charge-offs for 1999 reflected decreases in consumer installment and revolving credit loans of $896 thousand and commercial loans secured by real estate of $315 thousand which were partially offset by increases in net charge-offs of 1-4 family residential mortgages and commercial loans not secured by real estate. Net charge-offs against the allowance for credit losses were $8.2 million, or 0.34% of average total loans in 1999. This compared to net charge-offs of $8.7 million in 1998 and $9.5 million in 1997. Net charge-offs were 0.36% and 0.41% of average total loans during 1998 and 1997, respectively. For an analysis of credit quality, see the "Credit Review" section of this discussion.

The following table presents an analysis of the consolidated allowance for credit losses for the five years ended December 31, 1999 (dollars in thousands):

Summary of Loan Loss Experience

	1999	1998	1997	1996	1995
Loans outstanding at end of year	**$ 2,500,059**	$ 2,374,850	$ 2,436,337	$ 2,236,523	$ 1,935,938
Average loans outstanding	**$ 2,408,450**	$ 2,439,436	$ 2,330,657	$ 2,060,196	$ 1,846,507
Allowance for credit losses:					
Balance, beginning of year	**$ 32,304**	$ 25,932	$ 25,234	$ 23,803	$ 22,375
Loans charged off:					
Commercial, financial and agricultural	**1,821**	1,513	1,473	633	1,188
Loans to individuals	**6,126**	7,293	8,022	5,069	3,717
Real estate-construction	**-0-**	-0-	-0-	-0-	-0-
Real estate-commercial	**427**	812	664	440	218
Real estate-residential	**1,035**	690	819	195	481
Lease financing receivables	**187**	319	-0-	26	52
Total loans charged off	**9,596**	10,627	10,978	6,363	5,656
Recoveries of loans previously charged off:					
Commercial, financial and agricultural	**290**	462	223	263	159
Loans to individuals	**1,057**	1,328	1,218	1,033	1,067
Real estate-construction	**-0-**	-0-	-0-	-0-	-0-
Real estate-commercial	**-0-**	70	13	83	56
Real estate-residential	**33**	87	57	109	128
Lease financing receivables	**1**	3	13	5	99
Total recoveries	**1,381**	1,950	1,524	1,493	1,509
Net loans charged off	**8,215**	8,677	9,454	4,870	4,147
Provision charged to expense	**9,450**	15,049	10,152	6,301	5,575
Balance, end of year	**$ 33,539**	$ 32,304	$ 25,932	$ 25,234	$ 23,803
Ratios:					
Net charge-offs as a percentage of average loans outstanding	**0.34%**	0.36%	0.41%	0.24%	0.22%
Allowance for credit losses as a percentage of average loans outstanding	**1.39%**	1.32%	1.11%	1.22%	1.29%

Net securities gains decreased $892 thousand during 1999 from $1.5 million reported in 1998 and compared to $6.8 million in 1997. The securities gains during 1999 resulted in part from the sales of fixed rate U.S. government agency securities and U.S. treasury securities classified as securities "available for sale" having book values of $15.0 million and $21.9 million, respectively, which resulted in securities gains of $167 thousand and $317 thousand, respectively. Proceeds from the sale of U.S. treasury securities in 1999 were the primary funding source for the acquisition of $20 million of bank owned life insurance during the first quarter. The security gains during 1998 resulted in part from the third and fourth quarter sales of floating collateralized mortgage obligations classified as securities "available for sale" having book values of $87.9 million and $16.1 million respectively, which resulted in security gains of $1.7 million during the third quarter and security losses of $803 thousand during the fourth quarter. These securities were sold to reduce the exposure to accelerated prepayments in a declining interest rate environment. The $89.6 million proceeds from the sale of securities in the third quarter of 1998 were used to reduce outstanding Federal funds purchased while the $15.3 million proceeds in the fourth quarter of 1998 were reinvested in higher yielding municipal securities. The 1998 securities gains also included the first quarter sale of U.S. Treasury securities classified as securities "available for sale" having a book value of $45.8 million with the proceeds being reinvested in mortgage backed and other U.S. government agency securities with similar average expected maturities. Securities losses of $586 thousand were incurred during the fourth quarter of 1998 primarily as a result of the sale of mutual funds classified as equity securities having a book value of $5.8 million. Additional security gains were incurred during the fourth quarter of 1998 as a result of the sale of Pennsylvania bank stocks having a book value of $5.2 million. The securities gains during 1997 resulted primarily

from the sale of investments in Pennsylvania bank stocks having a book value of $17.4 million which were sold for gains of $6.7 million.

Trust income of $5.5 million for 1999 reflected an increase of $274 thousand over 1998 levels and compared to $4.4 million reported in 1997. Enhanced referral programs and integrated growth plans for financial affiliates have been initiated to help improve sales in various areas including trust assets managed. The 1998 increase in trust income occurred primarily in fees from employee benefit accounts, agency/custodial accounts and retail mutual fund commissions and trailer fees. Service charges on deposits increased $981 thousand during 1999 as fee schedules for the Corporation's subsidiary banks were evaluated and modified. Additional noninterest income analysis is planned for 2000 through the use of recently implemented customer and product profitability systems which will be augmented with the use of outside consultants.

Gains on sale of loans increased $3.4 million for 1999 to $5.0 million from $1.6 million reported in 1998 and compared to $207 thousand for 1997. Gains on sale of loans for the 1999 period resulted primarily from the sale of $42.2 million of residential mortgage loans during the first quarter of 1999 and the sale of its $20.4 million retail credit card loans during the second quarter of 1999 which generated gains of $890 thousand and $4.0 million, respectively. Gains on sale of loans for 1998 resulted primarily from the sale of $52.5 million of 1-4 family residential mortgage loans during the fourth quarter of 1998 which resulted in a gain of $1.3 million. The Corporation mitigated prepayment risk through the sale of mortgage loans bearing higher interest rates than current market rates and reduced interest rate risk through the sale of mortgage loans bearing interest rates which were lower than current market rates.

Other income was $10.5 million in 1999 compared to $9.7 million in 1998 and $5.7 million in 1997. Other revenue for 1999 reflected increases in the cash surrender value of bank owned life insurance of $761 thousand and increases in merchant discount of $411 thousand over 1998 levels. Insurance commissions, primarily those generated from FCIA, increased $662 thousand during 1999 compared to 1998. As a result of branch analysis including the evaluation of the potential sale or consolidation of branches competing in the same market area, the Corporation sold two of its branches located in State College, Pennsylvania during 1998. The premium on sale of $10.1 million of deposits from the State College branches resulted in a gain of $950 thousand in the fourth quarter of 1998. Other income for 1998 reflected increases in cash surrender value of bank owned life insurance of $1.2 million and insurance commissions of $288 thousand compared to 1997 revenues. Charges for non-customer use of the Corporation's ATMs also increased other revenue for 1998 by $607 thousand over 1997 levels.

Total other operating expenses decreased $6.6 million to $93.6 million in 1999 compared to $100.2 million and $88.9 million in 1998 and 1997, respectively. Employee costs were $49.8 million in 1999, representing 1.17% of average assets compared to $48.7 million and 1.24% of average assets for 1998. Employee costs for 1997 were $47.1 million or 1.37% of average assets. Salary and benefit costs increased only 2.3% for 1999 compared to 1998 and were favorably impacted by the early retirement plan offered to employees during the fourth quarter of 1998. The success of the early retirement plan accelerated the process of right-sizing the Corporation beyond normal attrition management by adjusting employment levels quickly while continuing the Corporation's tradition of not laying off employees due to merger activity. The number of full time equivalent employees at December 31, 1999 was 1,453 compared to 1,500 at December 31, 1998. Increases in employee benefit expenses are anticipated in 2000 due to rate increases for health insurance of approximately 23% compared to 1999 rates.

Net occupancy and furniture and equipment costs decreased for all periods presented. The 1999 period reflected decreases in occupancy and furniture and equipment expenses as a result of the sale of two branches in 1998 and the closing or consolidation of several branches in 1999. All categories of occupancy expense reflected decreases during 1998 while furniture and equipment expense included decreases in maintenance and repairs which were partially offset by an increase in depreciation during 1998.

Outside data processing expenses were $3.2 million for 1999 compared to $3.1 million and $3.0 million for 1998 and 1997 respectively. Outside data processing expenses are managed by the Corporation's data processing subsidiary along with management of internal data processing costs. Outsourced data processing needs are evaluated based on technology, efficiency and cost considerations. Pennsylvania shares tax expense increased $325 thousand during 1999 and $201 thousand in 1998.

Included in the 1998 period were merger and related charges of $7.9 million. Merger expenses incurred during the acquisition of Southwest National Corporation for legal, accounting, printing, filing and other professional services totaled $1.6 million and were expensed during the fourth quarter of 1998. As part of the evaluation of appropriate staffing levels for the Corporation after inclusion of Southwest, an early retirement plan was offered to employees during the fourth quarter of 1998. Salary and benefit costs of the early retirement plan in the amount of $4.7 million are included in merger and other related charges for 1998, as approximately 5% of employees took advantage of this opportunity. In anticipation of the merger of Southwest benefit plans into those of the Corporation in the near future, Southwest curtailed their postretirement benefit

plan during the fourth quarter of 1998. An additional accrual adjustment of $1.1 million related to this curtailment is included in merger and other related charges for 1998. Additional merger and other related charges of $462 thousand were incurred during 1998 to standardize depreciation for Southwest to that of the Corporation and to write-off signs and supplies that become obsolete as a result of the merger.

Other operating expenses remained stable during 1999 at $24.6 million, compared to $24.5 million reported in 1998 and $22.6 million reported in 1997. Other operating expenses for the 1999 period included an increase in the write-down of mortgage servicing rights in the amount of $336 thousand related to the disposition of BSI. The disposition of BSI in 1999 also resulted in a loss on sale of $202 thousand. Advertising, software maintenance and charge card interchange expense reflected increases for the 1999 period of $265 thousand, $247 thousand, and $335 thousand, respectively compared to the 1998 period. Increases in telephone expense of $265 thousand during 1999 are being analyzed during 2000 for potential cost control in future periods. Other professional fees decreased $757 thousand during 1999 as outside professionals contracted during 1998 under limited engagements to review the Corporation's asset/liability management model, provide consulting services for marketing, customer profitability analysis and branch automation initiatives were not extended to the 1999 period. The 1999 period also reflected decreases in audit and accounting fees and legal fees compared to 1998.

Lease residual insurance costs, operational losses and charge-offs and software depreciation and maintenance expenses for 1998 reflected increases of $192 thousand, $403 thousand and $325 thousand respectively over 1997 levels. Loan processing expenses increased $353 thousand for 1998 compared to 1997, while accelerated prepayment speeds for loans in the fourth quarter of 1998 resulted in an increase in the amortization of purchased mortgage servicing rights of $336 thousand over 1997 amortization. Other professional fees for 1998 increased $753 thousand over amounts recorded for 1997.

Income tax expense was $19.6 million during 1999 representing an increase of $7.4 million over the 1998 amount of $12.2 million and compared to $17.3 million in 1997. The Corporation's effective tax rate was 27.0% for 1999 compared to 26.5% for 1998 and 30.5% for 1997. Extraordinary items for 1998 resulted from a single transaction whereby the Corporation incurred a cost of $960 thousand for the prepayment of FHLB term borrowings. This transaction was executed as part of the Corporation's repositioning of its balance sheet to reduce exposure to declining interest rates.

Liquidity

Liquidity is a measure of the Corporation's ability to efficiently meet normal cash flow requirements of both borrowers and depositors. In the ordinary course of business, funds are generated from deposits (primary source) and the maturity or repayment of earning assets, such as securities and loans. As an additional secondary source, short-term liquidity needs may be provided through the use of overnight Federal funds purchased, borrowings through the use of lines available for repurchase agreements, and borrowings from the Federal Reserve Bank. Additionally, the banking subsidiaries are members of the Federal Home Loan Bank and may borrow under overnight and term borrowing arrangements. The sale of earning assets may also provide an additional source of liquidity.

Increased competition from nonbanking sources such as mutual funds, insurance companies and brokerage and investment banking firms have required banks to rely more heavily on alternative funding from other borrowings. Many of our competitors have significantly greater resources (financial and other) than us and may offer certain services that our banks do not provide at this time. In addition certain of our banks' competitors are not subject to the regulation and supervision to which we and our banks are subject, and therefore may have competitive advantages over our banks and us. The impact of increased competition for deposits could become more consequential in the future. The Corporation monitors liquidity through regular computations of prescribed liquidity ratios. The Corporation actively manages liquidity within a defined range and has developed liquidity contingency plans, including ensuring availability of alternate funding sources to maintain liquidity under a variety of business conditions. In addition to the previously described funding sources the Corporation's ability to access the capital markets was demonstrated during 1999 through the issuance of $35 million of capital securities and a $16 million bank loan to provide funding for stock buy-back.

The Corporation's long-term liquidity source is a large core deposit base and a strong capital position. Core deposits are the most stable source of liquidity a bank can have due to the long-term relationship with a deposit customer. Core deposits decreased $41.2 million in 1999 while total deposits increased $17.7 million for 1999. Non-core deposits, which are time deposits in denominations of $100 thousand or more represented 12.15% of total deposits at December 31, 1999, up from 10.21% of total deposits at December 31, 1998. Non-core deposits increased by $58.8 million in 1999 primarily as a result of an increase in public funds. Time deposits of $100 thousand or more at December 31, 1999, 1998 and 1997 had remaining maturities as follows:

Maturity Distribution of Large Certificates of Deposit
(Dollar Amounts in Thousands)

	1999		1998		1997	
	Amount	**Percent**	Amount	Percent	Amount	Percent
Remaining Maturity:						
3 months or less	**$ 273,376**	**76%**	$ 151,121	50%	$ 92,481	28%
Over 3 months through 6 months	**13,372**	**4**	40,363	14	64,874	20
Over 6 months through 12 months	**14,503**	**4**	27,546	9	53,428	16
Over 12 months	**57,010**	**16**	80,382	27	118,524	36
Total	**$ 358,261**	**100%**	$ 299,412	100%	$ 329,307	100%

Net loans increased $124.0 million during 1999 as commercial loans secured by real estate and commercial loans not secured by real estate increased by $108.6 million and $16.3 million respectively, compared to year-end 1998. Increases during 1999 for commercial loans were partially offset by decreases in loans secured by residential real estate and decreases in loans to individuals. The reduction in residential mortgage loans was primarily the result of the sale of $42.2 million of residential mortgages in March of 1999. The mortgage loans were sold to reduce the Corporation's prepayment risk and to shorten the average life of the fixed rate loan portfolio. The reduction in loans to individuals was primarily the result of the sale of $20.4 million of consumer credit card loans in June of 1999.

Below is a schedule of loans by classification for the five years ended December 31, 1999.

Loans by Classification
(Dollar Amounts in Thousands)

	1999		1998		1997		1996		1995	
	Amount	**Percent**	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial, financial, agricultural and other	**$ 417,300**	**16%**	$ 377,733	16%	$ 363,699	15%	$ 316,550	14%	$ 254,311	13%
Real estate-construction	**41,734**	**2**	33,097	1	35,308	1	39,120	2	32,914	2
Real estate-commercial	**495,789**	**20**	387,166	16	384,794	16	356,106	16	347,543	18
Real estate-residential	**980,506**	**39**	1,009,903	42	1,048,405	43	941,147	41	801,306	40
Loans to individuals	**502,465**	**20**	517,907	22	569,742	23	578,204	25	519,949	26
Net leases	**65,893**	**3**	56,423	3	51,245	2	36,329	2	24,190	1
Gross loans and leases	**2,503,687**	**100%**	2,382,229	100%	2,453,193	100%	2,267,456	100%	1,980,213	100%
Unearned income	**(3,628)**		(7,379)		(16,856)		(30,933)		(44,275)	
Total loans, and leases net of unearned income	**$ 2,500,059**		$2,374,850		$ 2,436,337		$2,236,523		$1,935,938	

An additional source of liquidity is marketable securities that the Corporation holds in its investment portfolio. These securities are classified as "securities available for sale". While the Corporation does not have specific intentions to sell these securities, they have been designated as "available for sale" because they may be sold for the purpose of obtaining future liquidity, for management of interest rate risk or as part of the implementation of tax management strategies. As of December 31, 1999, securities available for sale had an amortized cost of $1,206 million and an approximate fair value of $1,144 million. Gross unrealized gains were $328 thousand and gross unrealized losses were $62.3 million. Based upon the Corporation's historical ability to fund liquidity needs from other sources, the current available for sale portfolio is deemed to be more than adequate, as the Corporation does not anticipate a need to liquidate the investments until maturity. Below is a schedule of the contractual maturity distribution of securities held to maturity and securities available for sale at December 31, 1999.

Maturity Distribution of Securities Held to Maturity
(Dollar Amounts in Thousands)

	U.S. Government Agencies and Corporations	States and Political Subdivisions	Other Securities	Total Amortized Cost	Weighted Average Yield*
Within 1 year	$ 1,355	$ 3,941	$ -0-	$ 5,296	5.57%
After 1 but within 5 years	98,306	21,600	24,506	144,412	6.40
After 5 but within 10 years	78,523	31,536	355	110,414	6.25
After 10 years	110,532	77,693	-0-	188,225	6.51
Total	$ 288,716	$ 134,770	$ 24,861	$ 448,347	6.40%

**Yields are calculated on a tax-equivalent basis.*

Maturity Distribution of Securities Available for Sale
At Amortized Cost
(Dollar Amounts in Thousands)

	U.S. Treasury, and other U.S. Government Agencies and Corporations	States and Political Subdivisions	Other Securities	Total Amortized Cost	Weighted Average Yield*
Within 1 year	$ 3,002	$ 1,615	$ 5	$ 4,622	6.86%
After 1 but within 5 years	123,130	9,605	19,830	152,565	6.32
After 5 but within 10 years	51,940	12,592	499	65,031	6.27
After 10 years	732,024	51,536	200,199	983,759	6.67
Total	$ 910,096	$ 75,348	$ 220,533	$ 1,205,977	6.55%

**Yields are calculated on a tax-equivalent basis.*

Interest Sensitivity

The objective of interest rate sensitivity management is to maintain an appropriate balance between the stable growth of income and the risks associated with maximizing income through interest sensitivity imbalances. While no single number can accurately describe the impact of changes in interest rates on net interest income, interest rate sensitivity positions, or "gaps" when measured over a variety of time periods may be helpful.

An asset or liability is considered to be interest-sensitive if the rate it yields or bears is subject to change within a predetermined time period. If interest-sensitive assets ("ISA") exceeds interest-sensitive liabilities ("ISL") during a prescribed time period, a positive gap results. Conversely, when ISL exceeds ISA during a time period, a negative gap results.

A positive gap tends to indicate that earnings will be impacted favorably if interest rates rise during the period and negatively when interest rates fall during the time period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes. In other words, as interest rates fall, a negative gap should tend to produce a positive effect on earnings and when interest rates rise, a negative gap should tend to affect earnings negatively.

The primary components of ISA include adjustable rate loans and investments, loan repayments, investment maturities and money market investments. The primary components of ISL include maturing certificates of deposit, money market deposits, savings deposits, NOW accounts and short-term borrowings.

The following table lists the amounts and ratios of assets and liabilities with rates or yields subject to change within the periods indicated as of December 31, 1999 and 1998 (Dollar Amounts in Thousands):

	1999			
	0-90 Days	**91-180 Days**	**181-365 Days**	**Cumulative 0-365 Days**
Loans	**$ 697,645**	**$ 113,547**	**$ 204,090**	**$ 1,015,282**
Investments	**44,666**	**39,497**	**66,465**	**150,628**
Other interest-earning assets	**18,799**	**2,759**	**4,532**	**26,090**
Total interest-sensitive assets	**761,110**	**155,803**	**275,087**	**1,192,000**
Certificates of deposit	**325,985**	**231,804**	**277,769**	**835,558**
Other deposits	**1,074,451**	**-0-**	**-0-**	**1,074,451**
Borrowings	**467,255**	**961**	**127,108**	**595,324**
Total interest-sensitive liabilities	**1,867,691**	**232,765**	**404,877**	**2,505,333**
Gap	**$(1,106,581)**	**$ (76,962)**	**$ (129,790)**	**$ (1,313,333)**
ISA/ISL	**0.41**	**0.67**	**0.68**	**0.48**
Gap/Total assets	**25.49%**	**1.77%**	**2.99%**	**30.26%**

	1998			
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days
Loans	$ 765,948	$ 168,297	$ 293,082	$1,227,327
Investments	59,942	87,042	149,497	296,481
Other interest-earning assets	38,048	4,120	6,207	48,375
Total interest-sensitive assets	863,938	259,459	448,786	1,572,183
Certificates of deposit	359,487	323,760	318,282	1,001,529
Other deposits	1,094,125	-0-	-0-	1,094,125
Borrowings	142,509	1,085	2,413	146,007
Total interest-sensitive liabilities	1,596,121	324,845	320,695	2,241,661
Gap	$ (732,183)	$ (65,386)	$ 128,091	$ (669,478)
ISA/ISL	0.54	0.80	1.40	0.70
Gap/Total assets	17.87%	1.60%	3.13%	16.34%

Although the periodic gap analysis provides management with a method of measuring current interest rate risk, it only measures rate sensitivity at a specific point in time. Therefore, to more precisely measure the impact of interest rate changes on the Corporation's net interest income, management simulates the potential effects of changing interest rates through computer modeling. The income simulation model used by the Corporation captures all assets, liabilities, and off-balance sheet financial instruments, accounting for significant variables that are believed to be affected by interest rates. These variables include prepayment speeds on mortgage loans and mortgage backed securities, cash flows from loans, deposits and investments and balance sheet growth assumptions. The model also captures embedded options, such as interest rate caps/floors or call options, and accounts for changes in rate relationships as various rate indices lead or lag changes in market rates. The Corporation is then better able to implement strategies which would include an acceleration of a deposit rate reduction or lag in a deposit rate increase. The repricing strategies for loans would be inversely related.

The Corporation's asset/liability management policy guidelines limit interest rate risk exposure for the succeeding twenty-four month period. Simulations are prepared under the base case where interest rates remain flat and most likely case where interest rates are defined using projections of economic factors. Additional simulations are produced estimating the impact on net interest income of a 300 basis point (3.00%) movement upward or downward from the base case scenario. The Corporation's current asset/liability management policy indicates that a 300 basis point (3.00%) change in interest rates up or down cannot result in more than a 7.5% change in net interest income when compared to a base case without Board approval and a strategy in place to reduce interest rate risk below the established maximum level. The analysis at December 31, 1999, indicated that a 300 basis point (3.00%) movement in interest rates in either direction over the next twelve months would not have a significant impact on the Corporation's anticipated net interest income over that time nor over the next twenty-four months and the Corporation's position would remain well within current policy guidelines.

The Corporation's "Asset/Liability Management Committee" ("ALCO") is responsible for the identification, assessment and management of interest rate risk exposure, liquidity, capital adequacy and investment portfolio position. The primary objective of the ALCO process is to ensure that the Corporation's balance sheet structure maintains prudent levels of risk within the context of currently known and forecasted economic conditions and to establish strategies which provide the Corporation with appropriate compensation for the assumption of those risks. The ALCO attempts to mitigate interest rate risk through the use of strategies such as asset disposition, asset and liability pricing and matched maturity funding. The ALCO strategies are established by the Corporation's senior management and are approved by the Corporation's board of directors.

Final loan maturities and rate sensitivity of the loan portfolio excluding consumer installment and mortgage loans and before unearned income at December 31, 1999 were as follows (Dollar Amounts in Thousands):

	Within One Year	One to 5 Years	After 5 Years	Total
Commercial and industrial	$ 157,993	$ 72,231	$ 66,269	$ 296,493
Financial institutions	-0-	93	-0-	93
Real estate-construction	18,460	7,246	16,028	41,734
Real estate-commercial	78,823	73,323	343,643	495,789
Other	25,365	12,953	82,396	120,714
Totals	$ 280,641	$ 165,846	$ 508,336	$ 954,823
Loans at fixed interest rates		147,617	367,732	
Loans at variable interest rates		18,229	140,604	
Totals		$ 165,846	$ 508,336	

Credit Review

Maintaining a high quality loan portfolio is of great importance to the Corporation. The Corporation manages the risk characteristics of the loan portfolio through the use of prudent lending policies and procedures and monitors risk through a periodic review process provided by internal auditors, regulatory authorities and our loan review staff. These reviews include the analysis of credit quality, diversification of industry, compliance to policies and procedures, and an analysis of current economic conditions.

In the management of its credit portfolio, the Corporation emphasizes the importance of the collectibility of loans and leases as well as asset and earnings diversification. The Corporation immediately recognizes as a loss all credits judged to be uncollectible and has established an allowance for credit losses that may exist in the portfolio at a point in time, but have not been specifically identified.

The Corporation's written lending policy requires certain underwriting standards to be met prior to funding any loan, including requirements for credit analysis, collateral value coverage, documentation, and terms. The principal factor used to determine potential borrowers' creditworthiness is business cash flows or consumer income available to service debt payments. Secondary sources of repayment, including collateral or guarantees, are frequently obtained.

The lending policy provides limits for individual and bank committees lending authorities. In addition to the bank loan approval process, requests for borrowing relationships which will exceed one million dollars must also be approved by the Corporation's Credit Committee. This Committee consists of a minimum of three members of the Corporation's board of directors.

Commercial and industrial loans are generally granted to small and middle market customers for operating, expansion or asset acquisition purposes. Operating cash flows of the business enterprise are identified as the principal source of repayment, with business assets held as collateral. Collateral margins and loan terms are based upon the purpose and structure of the transaction as set forth in loan policy.

Commercial real estate loans are granted for the acquisition or improvement of real property. Generally, commercial real estate loans do not exceed 75% of the appraised value of property pledged to secure the transaction. Repayment of such loans are expected from the operations of the subject real estate and are carefully analyzed prior to approval.

Real estate construction loans are granted for the purposes of constructing improvements to real property, both commercial and residential. On-site inspections are conducted by qualified individuals prior to periodic permanent project financing, which is generally committed prior to the commencement of construction financing.

Real estate loans secured by 1-4 family residential housing properties are granted subject to statutory limits in effect for each bank regarding the maximum percentage of appraised value of the mortgaged property. Residential loan terms are normally established in compliance with secondary market requirements. Residential mortgage portfolio interest rate risk is controlled by secondary market sales, variable interest rate loans and balloon maturities.

Loans to individuals represent financing extended to consumers for personal or household purposes, including automobile financing, education, home improvement, and personal expenditures. These loans are granted in the form of installment, credit card, or revolving credit transactions. Consumer creditworthiness is evaluated on the basis of ability to repay, stability of income sources, and past credit history.

The Corporation maintains an allowance for credit losses at a level deemed sufficient to absorb losses which are inherent in the loan and lease portfolios at each balance sheet date. Management reviews the adequacy of the allowance on at least 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. The Corporation's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements. These elements include a specific allowance for primary watch list classified loans, an allowance based on historical trends, an additional allowance for special circumstances, and an unallocated portion. The Corporation consistently applies the following comprehensive methodology and procedure at the subsidiary bank level.

The allowance for primary watch list classified loans addresses those loans maintained on the Corporation's primary watch list which are assigned a rating of substandard, doubtful, or loss. Substandard loans are those with a well-defined weakness or a weakness which jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of impairment 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 Corporation may also be classified as substandard. Doubtful loans have 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. Although the possibility of loss is extremely high for doubtful loans, the classification of loss is deferred until pending factors, which might improve the loan, have been determined. Loans rated as doubtful in whole or in part

are placed in nonaccrual status. Loans which are classified as loss are considered uncollectible and are charged to the allowance for credit losses at the next meeting of the Corporation's credit committee after placement in this category. There were no loans classified as loss on the primary watch list as of December 31, 1999.

Loans on the primary watch list may also be impaired loans, which are defined as nonaccrual loans or troubled debt restructurings which are not in compliance with their restructured terms. Each of the classified loans on the primary watch list are individually analyzed to determine the level of the potential loss in the credit under the current circumstances. The specific reserve established for these criticized and impaired loans is based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. The allowance for primary watch list classified loans is equal to the total amount of potential unconfirmed losses for the individual classified loans on the watch list. Primary watch list loans are managed and monitored by assigned account officers within the Corporation in conjunction with Senior Management.

The allowance based on historical trends uses charge-off experience of the Corporation to estimate potential unconfirmed losses in the balances of the loan and lease portfolios. The historical loss experience percentage is based on the charge-off history for the twenty most recent quarters. Historical loss experience percentages are applied to all non-classified loans to obtain the portion of the allowance for credit losses which is based on historical trends. Before applying the historical loss experience percentages, loan balances are reduced by the portion of the loan balances which are subject to guarantee by a government agency. Loan balances are also adjusted for unearned discount on installment loans.

The additional allowance for special circumstances provides management with the opportunity to estimate additional potential allowance amounts which may be needed to cover specific factors. The specific factors that management currently evaluates consist of portfolio risk or concentrations of credit, off balance sheet risk, economic conditions, management or staff considerations, and comparative peer analysis variances. Portfolio risks include unusual changes or recent trends in specific portfolios such as unexpected changes in the trends or levels of delinquency or charge-offs, unusual repossession activities or large levels of unsecured loans in a portfolio.

The Corporation also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential credit loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential credit losses is performed these estimates by definition lack precision. Management must make estimates using assumptions and information which is often subjective and changing rapidly.

Since all identified losses are immediately charged off, no portion of the allowance for credit losses is restricted to any individual credit or groups of credits, and the entire allowance is available to absorb any and all credit losses. However, for analytical purposes, the following table sets forth an allocation of the allowance for credit losses at December 31 according to the categories indicated:

Allocation of the Allowance for Credit Losses
(Dollar Amounts in Thousands)

	1999	1998	1997	1996	1995
Commercial, industrial, financial, agricultural and other	**$ 6,321**	$ 4,375	$ 3,726	$ 3,628	$ 2,482
Real estate-construction	**831**	414	415	461	330
Real estate-commercial	**7,675**	5,119	4,912	4,731	4,170
Real estate-residential	**9,928**	10,319	8,595	8,145	6,420
Loans to individuals	**5,131**	5,223	4,583	4,933	3,892
Lease financing receivables	**586**	512	393	285	162
Unallocated	**3,067**	6,342	3,308	3,051	6,347
Total	**$33,539**	$32,304	$25,932	$25,234	$ 23,803
Allowance as percentage of average total loans	**1.39%**	1.32%	1.11%	1.22%	1.29%

Other than those described below, there are no material credits that management has serious doubts as to the borrower's ability to comply with the present loan repayment terms. The following table identifies nonperforming loans at December 31. A loan is placed in a nonaccrual status at the time when ultimate collectibility of principal or interest, wholly or partially, is in doubt. Past due loans are those loans which were contractually past due 90 days or more as to interest or principal payments but are well secured and in the process of collection. Renegotiated loans are those loans which 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.

Nonperforming and Impaired Assets and Effect on Interest Income Due to Nonaccrual
(Dollar Amounts in Thousands)

	1999	1998	1997	1996	1995
Loans on nonaccrual basis	**$12,765**	$ 9,677	$11,387	$ 9,536	$ 8,782
Past due loans	**15,815**	15,780	13,955	14,046	9,410
Renegotiated loans	**62**	64	67	280	803
Total nonperforming loans	**$28,642**	$25,521	$25,409	$23,862	$ 18,995
Nonperforming loans as a percentage of total loans	**1.15%**	1.07%	1.04%	1.07%	0.98%
Allowance as percentage of nonperforming loans	**117.10%**	126.58%	102.06%	105.75%	125.31%
Other real estate owned	**$ 1,707**	$ 2,370	$ 1,950	$ 1,732	$ 1,467
Gross income that would have been recorded at original rates	**$ 724**	$ 961	$ 1,017	$ 799	$ 946
Interest that was reflected in income	**458**	286	146	223	241
Net reduction to interest income due to nonaccrual	**$ 266**	$ 675	$ 871	$ 576	$ 705

The reduction of income due to renegotiated loans was less than $50 thousand in any year presented.

The level of nonperforming loans at year-end 1999 increased $3.1 million over 1998 levels as a result of increases in nonaccrual loans. Increases for nonaccrual commercial loans secured by real estate, commercial loans not secured by real estate and construction loans of $2.2 million, $1.4 million and $1.1 million, respectively were partially offset by decreases of $1.6 million for nonaccrual loans secured by residential real estate. Nonperforming loans as a percentage of total loans for 1999 also increased over 1998 levels. Although the allowance for credit losses as a percentage of nonperforming loans of 117.10% at December 31, 1999 has decreased over 1998 levels, this ratio has not decreased below historic levels.

Management believes that the allowance for credit losses and nonperforming loans remained safely within acceptable levels.

Capital Resources

Equity capital decreased $68.7 million in 1999 to $286.7 million. On July 13, 1999, the Corporation announced that the Board of Directors authorized a repurchase of up to 4 million shares (post split) of its outstanding common stock. The Corporation purchased 3,819,420 shares in a "modified Dutch Auction" which reduced equity by $50.1 million for the cost of the shares. The Corporation also purchased an additional 102,248 treasury shares in open market transactions which reduced equity by $1.3 million. Proceeds from the reissuance of treasury shares to provide for stock options exercised increased equity capital by $1.5 million.

Dividends declared decreased equity by $30.9 million during 1999, an increase over dividends for the 1998 period as the dividend rate was increased. The retained net income of $22.2 million remained in permanent capital to fund future growth and expansion. Long-term debt payments and fair value adjustments to unearned ESOP shares increased equity capital by $1.9 million. The market value adjustment to securities available for sale decreased equity by $42.5 million. Amounts paid to fund the discount on reinvested dividends reduced equity by $358 thousand.

A capital base can be considered adequate when it enables the Corporation to intermediate funds responsibly and provide related services while protecting against future uncertainties. The evaluation of capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings history and prospects, internal controls and management caliber. In consideration of these factors, management's primary emphasis with respect to the Corporation's capital position is to maintain an adequate and stable ratio of equity to assets. See NOTE 22 for an analysis of regulatory capital guidelines and the Corporation's capital ratios relative to these measurement standards.

Year 2000 Analysis

The Corporation began evaluating the size and complexity of the year 2000 issue during 1995. Project teams were established to identify and prioritize critical systems and processes affected by the year 2000 date change. By fully dedicating numerous technical staff from Commonwealth Systems Corporation, the Corporation's data processing subsidiary and utilizing additional staff from various functional areas, multiple computer systems were addressed concurrently. All mission critical systems operated as expected when the date changed to January 1, 2000. The Corporation's greatest asset in successfully dealing with the year 2000 issue was its dedicated staff.

The Corporation utilized internal resources to evaluate, reprogram and test software and hardware for year 2000 issues to the extent possible. Salary and benefit costs related to year 2000 activities were expensed as incurred. External year 2000 expenditures included amounts for capitalized hardware and software which will be amortized over three years for software and five years for hardware. In most cases, the new software and hardware offer additional benefits in processing capability or efficiencies gained from modernization in addition to

achieving year 2000 compliance. Mainframe software and hardware replaced will result in enhancements or features of potential benefit in serving banking customers or processing financial transactions. Year 2000 expenditures which were expensed as incurred during the past three years included the cost of leased off-site testing of mainframe systems, outside professionals utilized for independent verification, travel and lodging during off-site testing and vendor testing. Cash outlays were funded through operating cash flows.

The following table summarizes year 2000 expenditures during 1999, 1998 and 1997.

(Dollar Amounts in Thousands)

	12 Months Ended 12/31/99	12 Months Ended 12/31/98	12 Months Ended 12/31/97
Capitalized hardware and software	$ 152	$ 250	$ 106
Non-employee expenses including testing	87	152	20
Employee related costs	793	1,003	163
Subtotal	1,032	1,405	289
Capitalized hardware and software replaced without acceleration due to year 2000	723	2,043	70
Total expenditures	$ 1,755	$ 3,448	$ 359

Inflation and Changing Prices

Management is aware of the impact inflation has on interest rates and therefore the impact it can have on a bank's performance. The ability of a financial institution to cope with inflation can only be determined by analysis and monitoring of its asset and liability structure. The Corporation monitors its asset and liability position with particular emphasis on the mix of interest-sensitive assets and liabilities in order to reduce the effect of inflation upon its performance. However, it must be remembered that the asset and liability structure of a financial institution is substantially different from an industrial corporation in that virtually all assets and liabilities are monetary in nature, meaning that they have been or will be converted into a fixed number of dollars regardless of changes in general price levels. Examples of monetary items include cash, loans and deposits. Nonmonetary items are those assets and liabilities which do not gain or lose purchasing power solely as a result of general price level changes. Examples of nonmonetary items are premises and equipment.

Inflation can have a more direct impact on categories of noninterest expenses such as salaries and wages, supplies and employee benefit costs. These expenses are very closely monitored by management for both the effects of inflation and increases relating to such items as staffing levels, usage of supplies and occupancy costs.

COMMON STOCK INFORMATION

First Commonwealth Financial Corporation (the "Corporation") is listed on the New York Stock Exchange under the symbol "FCF." The approximate number of holders of record of the Corporation's common stock is 12,500. The table below sets forth the high and low sales prices per share and cash dividends declared per share for common stock of the Corporation.

Period	High Sale	Low Sale	Cash Dividends Per Share
1999			
First Quarter	$ 12.406	$ 10.156	$ 0.115
Second Quarter	$ 12.188	$ 10.375	$ 0.130
Third Quarter	$ 12.750	$ 11.031	$ 0.130
Fourth Quarter	$ 14.313	$ 11.625	$ 0.140

Period	High Sale	Low Sale	Cash Dividends Per Share
1998			
First Quarter	$ 17.125	$ 13.656	$ 0.110
Second Quarter	$ 14.875	$ 13.156	$ 0.110
Third Quarter	$ 15.281	$ 11.500	$ 0.110
Fourth Quarter	$ 13.406	$ 11.500	$ 0.115

OUR MISSION

THE MISSION OF FIRST COMMONWEALTH FINANCIAL CORPORATION IS TO MAXIMIZE THE LONG-TERM TOTAL RETURN TO SHAREHOLDERS.

Shareholder Value

First Commonwealth is committed to building shareholder value. It is our mission, our highest priority. Value is delivered through a combination of total return (dividend yields plus market price appreciation), market liquidity (the ease of buying or selling First Commonwealth shares), and shareholder services. This section of our annual report summarizes the many services that are made available to our shareholders.

Annual Meeting

The Annual Meeting of Shareholders will be held at:
First Commonwealth Place
654 Philadelphia St., Indiana, PA
On Monday, April 24, 2000 at 3:00 PM.

Common Stock

First Commonwealth Financial Corporation common stock is listed on The New York Stock Exchange and is traded under the symbol FCF. Current market prices for First Commonwealth Financial Corporation common stock can be obtained from your local stock broker or by calling the Corporation at (724) 349-7220 (in Indiana, PA) or 1-800-331-4107 (outside Indiana, PA).

Transfer Agent

The Bank of New York
Telephone Inquiries: 1-800-524-4458

Address Shareholder Inquiries To:
Shareholder Relations Department - 11E
P.O. Box 11258
Church Street Station
New York, NY 10286

E-Mail Address:
Shareowner-svcs@bankofny.com

The Bank of New York's Stock Transfer Website:
http://stock.bankofny.com

Send Certificates For Transfers and Address Changes To:
Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

Dividend Payments

Subject to the approval of the Board of Directors, quarterly cash dividends are paid on or about the 15th day of January, April, July and October.

Dividend Reinvestment

First Commonwealth Financial Corporation's Dividend Reinvestment Plan offers shareholders an opportunity to reinvest their dividends in additional shares of the Corporation's common stock. Once enrolled in the plan, participants may also purchase shares through voluntary cash investments. For more information on the plan, please call The Bank of New York, Plan Administrator, at 1-800-524-4458.

For shareholders who do not participate in the Dividend Reinvestment Plan, Automated Direct Dividend Deposit Service is available for direct deposit of quarterly dividend payments to a checking or savings account. To enroll, please call The Bank of New York at 1-800-524-4458 for an Authorization Form (completed forms must be received by the Bank 30 days prior to dividend payment date).

Form 10K

A copy of the Form 10K as filed with the Securities and Exchange Commission will be provided to any shareholder on request to the Corporation, to the attention of the Corporate Secretary.

Investor/Shareholder Inquiries

Requests for information or assistance regarding the Corporation should be directed to the Corporation, to the attention of Shareholder Relations, 1-800-331-4107.

FIRST COMMONWEALTH FINANCIAL CORPORATION

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