# Coming full circle;

# It begins and ends with dedicated people.

First Commonwealth
Financial Corporation
**Annual Report**
Two Thousand One

Our employees are our vital link

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to the communities that we serve.

Joseph E. O'Dell
President & Chief Executive Officer

## Message to Shareholders

I was pleased to have been able to report to you earlier this year that First Commonwealth had excellent results for the year 2001. Net income of $50.2 million and earnings per share of $.87 were both up 6% over the previous year. Return on assets and return on equity for the year were 1.11% and 13.85% respectively.

The First Commonwealth common stock performed very strongly as well with a total return of 21% for the year. The cash dividend yield of around 5% continues to attract new investors. More investors are also enrolling in the Dividend Reinvestment Plan to take advantage of the 10% discount available on new shares purchased with reinvested dividends.

The Growth Units (First Commonwealth Bank, Southwest Bank, First Commonwealth Trust Company and First Commonwealth Insurance Agency) have made terrific progress in integrating their products and developing the advisory skills of their personnel. Their clients continue to be very receptive to their one-stop "Total Solutions" approach to delivering the right products and services that satisfy each client's unique needs.

To assure that their clients have the very best products to choose from, the banks have recently introduced several exciting new products. "High Performance Checking" is an array of seven excellent

checking packages running the gamut from a high yielding money market account to a totally free checking product. This product is being launched with a massive direct mail campaign and a selection of exciting gifts for clients opening a new account.

The new "Step-Up" certificate of deposit guarantees an increasing interest rate each year over the four-year term of the instrument. This product has been very popular as many clients want to maximize their current yield while protecting their return should interest rates rise.

Details about these and other new products can be obtained by calling our Convenience Banking Center (800-711-BANK) or visiting our web site (fcfbank.com or swbank.com). You will also want to check out the new on-line banking services that have just been introduced. These new features combine with "WebPay" to provide a complete on-line delivery channel providing the convenience of banking from home twenty-four hours a day, seven days a week.

The ability of our Growth Units to provide "Total Solutions" to their clients was greatly enhanced on March 1 when a partnership with Richard Applegate was announced. Rick brings his two well respected companies to the First Commonwealth family. Strategic Capital Concepts, Inc. is a financial planning and consulting firm and Strategic Financial Advisors, Inc. is an asset management firm. Both firms are headquartered in the Pittsburgh suburb of Allison Park.

Rick may be familiar to many of our shareholders due to his frequent appearances as a commentator and reporter on a variety of national financial programs such as CNBC's "The Money Club" and "PowerLunch." He is also a frequent guest on CNN and Bloomberg TV and has appeared as a market commentator locally for WTAE and WPXI.

First Commonwealth employees have recommitted themselves to serving their communities since the events of September 11. The role of our people in a wide range of community and charitable organizations is indeed dramatic. In most cases, our employees are providing the critical leadership functions that truly make our communities great. I am exceptionally proud of the individual contributions of our people in making the places where we live, work, and do business even better.

Another major initiative has been launched to bring all our partner organizations together under a common brand. This move will enhance our name recognition and our ability to cost effectively market our products and services. This project is to be completed before year-end 2002.

The year 2001 was certainly eventful and one that saw substantial progress at First Commonwealth. So far 2002 is off to an even faster start with the promise of continued progress and success. As always I thank our employees for their hard work and dedication, and our shareholders for their continued confidence.

# We will train and invest resources

Investing time in employee training at all levels is our commitment to successful growth.

Careful planning, examination of industry trends, and, most of all, vision, determine the successful evolution of a corporation. At First Commonwealth Financial Corporation, our vision for successful change and growth begins and ends with our community. Because of our communities' needs, we develop effective comprehensive services. For our communities' well being, we give our time, our philanthropy, our commitment. Employees, shareholders, and directors alike live, work, and interact in the very neighborhoods where our clients are, where First Commonwealth has a presence. We draw our strength, our resources, and our business, from these communities.

One way to achieve successful growth is to give employees, our number one resource, tools to be the best they can be. Training is essential. Employees in our growth units—First Commonwealth Bank, Southwest Bank, First Commonwealth Trust Company, and First Commonwealth Insurance Agency—are trained in the Preferred Way of the Selling®, a process that involves helping clients understand their needs in order to find solutions. Employees in Commonwealth Systems Corporation and First Commonwealth Professional

**in our employees, our #1 resource,**

Resources Incorporated are trained to support our growth units, giving them tools to effectively serve and attract clients. Giving these entities a unified name and identity will also be important as we work toward becoming a world class organization.

There was a time when coming to the bank was the only way to do business with a bank. At First Commonwealth Financial Corporation, we recognize the need to deliver our services in a variety of ways. Being responsive to what works best for each of our clients has built confidence in our organization; it has helped us to be reliable community partners and to help our clients be successful. People can still come to the bank, but they also can do business over the phone, use a computer, or have one of our employees come to them. The good news for First Commonwealth clients is that we provide *complete* integrated financial solutions from insurance to financial planning—they need not go elsewhere to get what they need, the way they need it. These strategies serve to optimize long-term economic returns and strengthen our communities.

Kuchera Defense Systems, Inc., in Windber, Pennsylvania, is a perfect example of the way First Commonwealth delivers service to help a client meet with success. When William and Ronald Kuchera asked for our help to "get started," they were interested in building their business, but also in building the community by providing jobs and giving opportunities to people with special needs. We developed a working relationship with Kuchera and helped them in their development. Today, Kuchera employs over 200 people and serves customers throughout the United States.

**and we will deliver comprehensive**

services to all our clients, because

By concentrating on building relationships, First Commonwealth can better serve clients needs.

# responding to their financial needs

By participating in their communities, First Commonwealth employees build business by being good neighbors.

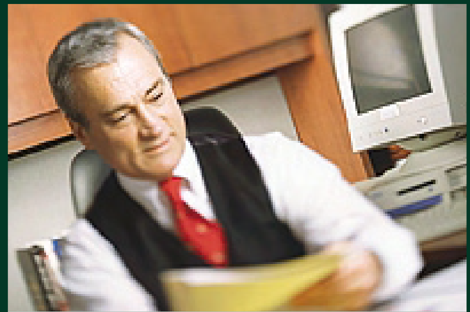
Creating an environment where our success depends upon our commitment to the community is important. We encourage employees to give back to their communities by giving their time to making their communities better. Volunteering for local human service agencies, offering talents or expertise to help local organizations make decisions, even making financial contributions to charitable groups builds communities and community confidence in First Commonwealth. We donate to charities each year and encourage the same of our employees. Being the financial partners of our communities is as important as attending community events. First Commonwealth employees are community members as well as financial service providers.

At the end of the day, many of our employees head off to coach soccer games, participate in scouting events, help at a local food pantry, attend charitable organization meetings, or roll up their sleeves to clean up or build or fix. For example, one employee volunteers for the Alternative Community Resource Program (ACRP), a community based organization established to prevent out-of-home placement of youth and adolescents and to enable family units to remain intact. ACRP has five

**means our communities are strong**

programs to help at-risk youth develop self-esteem and learn to be productive citizens. Actively encouraging our employees to participate in these types of programs builds the communities where our employees, shareholders, directors, and clients live. Being good neighbors is good business.

It all comes back full circle. We are ever aware as well as proud of the fact that First Commonwealth Financial Corporation begins and ends with the communities where a First Commonwealth partner exists. Our goal is to improve our services, the way we deliver those services, and ourselves, so we can continue to improve our communities. We are all shareholders in the First Commonwealth Financial Corporation circle of services and are collectively investing in the strength of the organization and of the communities where we live, we work, we worship, we participate, we play, and we bank. Our future will see us unify our corporate image, perfect our skills as sales people and service providers, and hone our now complete line of client financial services. Employees are the people who link us to those communities.



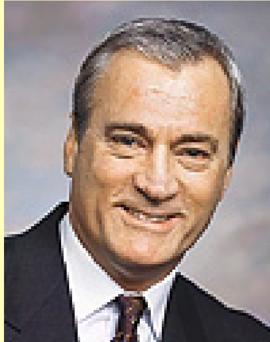
**Richard R. Applegate**

Nationally recognized financial advisor Rick Applegate, and his financial planning companies, Strategic Capital Concepts, Inc. and Strategic Financial Advisors, Inc, have become partners of First Commonwealth Financial Corporation, capping our ability to offer a comprehensive line of financial services to clients. A Pennsylvania native, Rick Applegate has filed many reports for CNBC's "The Money Club" and comments regularly on CNBC's "PowerLunch." A well-known speaker, educator, commentator, and reporter, Rick has been providing financial planning, investment, insurance, retirement plan, and employee benefit advice and service since 1975. His clients include non-profit organizations, hospitals, Fortune 500 companies, and many affluent individuals. Our new partnership with Rick Applegate means that First Commonwealth clients now have access to superior financial planning services.

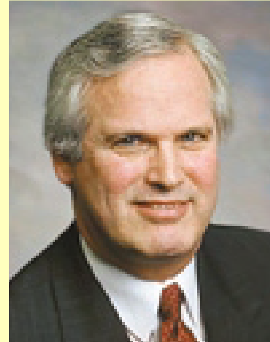
and we all succeed.

The client is the central focus when First Commonwealth is selling services, or delivering them.

# First Commonwealth Affiliate Presidents


Richard R. Applegate

John O. Campbell


David S. Dahlmann

Johnston A. Glass

Sue McMurdy

William A. Mrozowski

Gerard M. Thomchick

**Richard R. Applegate**
*President*, Strategic Capital Concepts, Inc., and Strategic Financial Advisors, Inc., 4035 William Flynn Highway, Allison Park, PA 15101 • (412) 492-8787

**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

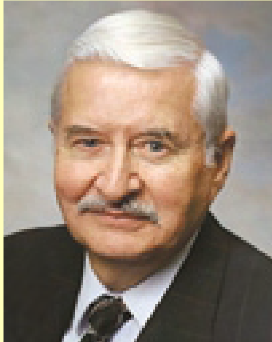
**Johnston A. Glass**
*President & Chief Executive Officer*, First Commonwealth Bank, Central Offices, Philadelphia and Sixth Streets, Indiana, PA 15701 • (724) 349-3400

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

**William A. Mrozowski**
*President & Chief Executive Officer*, First Commonwealth Trust Company, 614 Philadelphia Street, Indiana, PA 15701 • (724) 465-3282

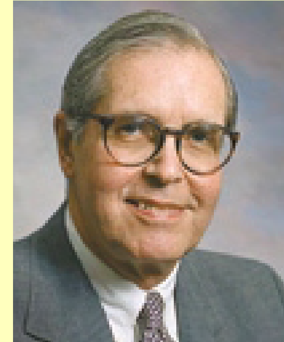
**Gerard M. Thomchick**
*President*, First Commonwealth Professional Resources Incorporated, 22 North Sixth Street, Indiana, PA 15701 • (724) 349-7220. *President*, Commonwealth Trust Credit Life Insurance Company, 2700 North Third Street, Suite 2000, Phoenix, AZ 85004

# Board of Directors


E. H. Brubaker

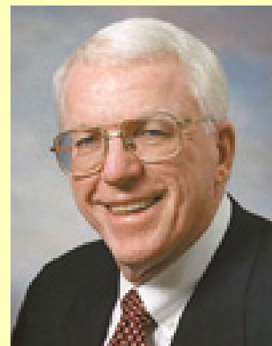
Sumner E. Brumbaugh

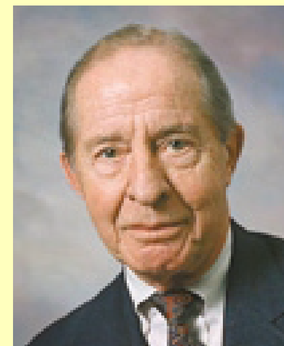
Ray T. Charley

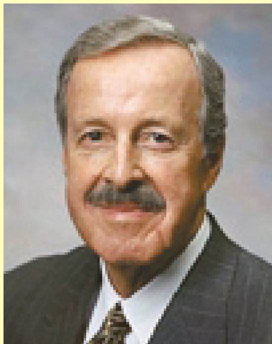

Edward T. Côté

Ronald C. Geiser

Johnston A. Glass

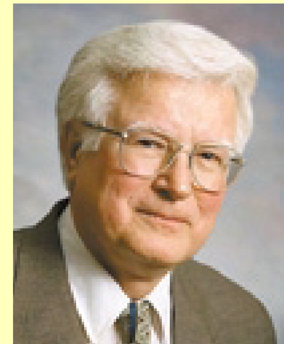

Thomas J. Hanford


H. H. Heilman, Jr., Esq.

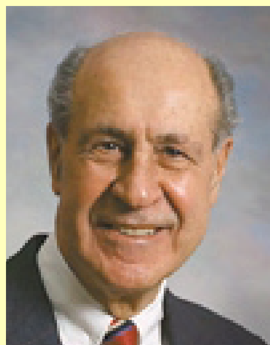

Dale P. Latimer

James W. Newill

Joseph E. O'Dell

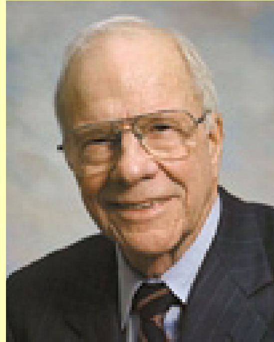

Joseph W. Proske

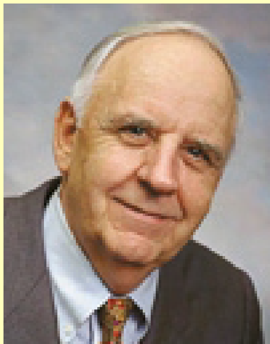
David R. Tomb, Jr., Esq.


E. James Trimarchi

Robert C. Williams

David S. Dahlmann


Clayton C. Dovey, Jr.


David L. Johnson

Robert F. Koslow

John A. Robertshaw, Jr.

Laurie Stern Singer

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

**Sumner E. Brumbaugh** *Duncansville*
Former 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, Greensburg

**Clayton C. Dovey, Jr.** *Johnstown*
Retired, Former 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*
Vice Chairman, First Commonwealth Financial Corporation, and President and Chief Executive Officer, First Commonwealth Bank, Indiana

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

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

**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*
Chairman of the Board, 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

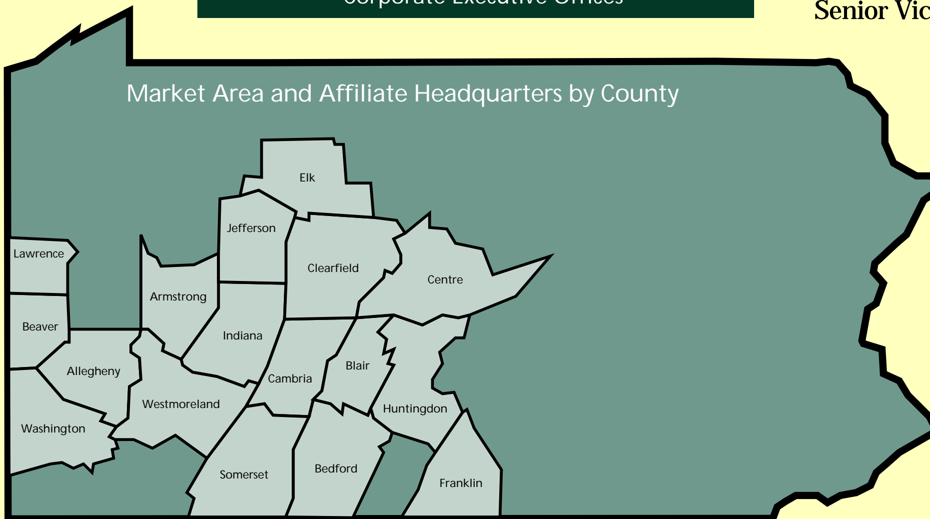
**Robert C. Williams** *Fayetteville*
President, Unitas Bank, Chambersburg

# 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*
Strategic Capital Concepts, Inc.
*Allison Park, PA*
Strategic Financial Advisors, Inc.
*Allison Park, 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

Johnston A. Glass
Vice Chairman, Growth

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

John J. Dolan
Executive Vice President and Chief Financial Officer

Sue McMurdy
Senior Vice President and Chief Information Officer

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

Thaddeus J. Clements
Senior Vice President, Human Resources

William R. Jarrett
Senior Vice President, Risk Management

R. John Previte
Senior Vice President, Investments

*For shareholder information see inside back cover of this report.*

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

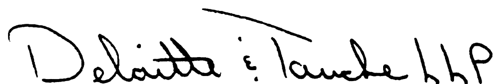
## INDEPENDENT AUDITORS' REPORT

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 (the "Corporation") as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the financial position of First Commonwealth Financial Corporation and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.



DELOITTE & TOUCHE, LLP
Pittsburgh, Pennsylvania
January 25, 2002

## CONSOLIDATED BALANCE SHEETS

*(Dollar Amounts in Thousands)*

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 98,130** | $ 90,723 |
| Interest-bearing bank deposits | **4,250** | 427 |
| Federal funds sold | **-0-** | 11,125 |
| Securities available for sale, at market | **1,469,118** | 1,238,230 |
| Securities held to maturity, at amortized cost, (Market value $298,643 in 2001 and $398,661 in 2000) | **293,290** | 398,107 |
| Loans | **2,569,231** | 2,492,874 |
| Unearned income | **(1,297)** | (2,047) |
| Allowance for credit losses | **(34,157)** | (33,601) |
| Net loans | **2,533,777** | 2,457,226 |
| Premises and equipment | **46,366** | 44,671 |
| Other real estate owned | **1,619** | 1,661 |
| Other assets | **136,980** | 130,142 |
| Total assets | **$ 4,583,530** | $ 4,372,312 |
| **LIABILITIES** | | |
| Deposits (all domestic): | | |
| Noninterest-bearing | **$ 412,695** | $ 349,804 |
| Interest-bearing | **2,680,455** | 2,714,342 |
| Total deposits | **3,093,150** | 3,064,146 |
| Short-term borrowings | **427,736** | 272,171 |
| Other liabilities | **28,358** | 44,984 |
| Company obligated mandatorily redeemable capital securities of subsidiary trust | **35,000** | 35,000 |
| Other long-term debt | **629,220** | 621,855 |
| Total long-term debt | **664,220** | 656,855 |
| Total liabilities | **4,213,464** | 4,038,156 |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued | **-0-** | -0- |
| Common stock $1 par value per share, 100,000,000 shares authorized; 62,525,412 shares issued and 58,451,624 shares outstanding in 2001; 62,525,412 shares issued and 58,195,450 shares outstanding in 2000 | **62,525** | 62,525 |
| Additional paid-in capital | **66,176** | 67,223 |
| Retained earnings | **288,219** | 272,169 |
| Accumulated other comprehensive income (loss) | **8,703** | (7,808) |
| Treasury stock (4,073,788 and 4,329,962 shares at December 31, 2001 and 2000, respectively at cost) | **(51,431)** | (54,666) |
| Unearned ESOP shares | **(4,126)** | (5,287) |
| Total shareholders' equity | **370,066** | 334,156 |
| Total liabilities and shareholders' equity | **$ 4,583,530** | $ 4,372,312 |

*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, | | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| **Interest Income** | | | |
| Interest and fees on loans | **$ 202,173** | $ 208,548 | $ 195,010 |
| Interest and dividends on investments: | | | |
| Taxable interest | **93,961** | 89,723 | 88,266 |
| Interest exempt from Federal income taxes | **9,534** | 9,638 | 9,479 |
| Dividends | **2,661** | 3,657 | 3,108 |
| Interest on Federal funds sold | **492** | 234 | 105 |
| Interest on bank deposits | **70** | 82 | 121 |
| Total interest income | **308,891** | 311,882 | 296,089 |
| **Interest Expense** | | | |
| Interest on deposits | **118,165** | 115,507 | 103,331 |
| Interest on short-term borrowings | **11,227** | 22,218 | 13,832 |
| Interest on mandatorily redeemable capital securities of subsidiary trust | **3,325** | 3,325 | 1,007 |
| Interest on other long-term debt | **34,453** | 33,489 | 34,483 |
| Total interest on long-term debt | **37,778** | 36,814 | 35,490 |
| Total interest expense | **167,170** | 174,539 | 152,653 |
| **Net interest income** | **141,721** | 137,343 | 143,436 |
| Provision for credit losses | **11,495** | 10,030 | 9,450 |
| **Net interest income after provision for credit losses** | **130,226** | 127,313 | 133,986 |
| **Other Income** | | | |
| Securities gains | **3,329** | 1,745 | 565 |
| Trust income | **4,995** | 5,555 | 5,525 |
| Service charges on deposits | **11,160** | 10,562 | 10,645 |
| Insurance commissions | **3,192** | 1,951 | 1,537 |
| Income from bank owned life insurance | **4,618** | 3,419 | 2,126 |
| Other income | **12,930** | 10,451 | 13,827 |
| Total other income | **40,224** | 33,683 | 34,225 |
| **Other Expenses** | | | |
| Salaries and employee benefits | **54,521** | 52,529 | 49,806 |
| Net occupancy expense | **6,520** | 6,577 | 6,537 |
| Furniture and equipment expense | **9,050** | 8,154 | 7,653 |
| Data processing expense | **3,296** | 3,310 | 3,449 |
| Pennsylvania shares tax expense | **3,825** | 3,495 | 3,477 |
| Other operating expenses | **27,795** | 25,396 | 24,647 |
| Total other expenses | **105,007** | 99,461 | 95,569 |
| **Income before income taxes** | **65,443** | 61,535 | 72,642 |
| Applicable income taxes | **15,254** | 14,289 | 19,612 |
| **Net Income** | **$ 50,189** | $ 47,246 | $ 53,030 |
| Average Shares Outstanding | **57,885,478** | 57,558,929 | 60,333,092 |
| Average Shares Outstanding Assuming Dilution | **58,118,057** | 57,618,671 | 60,569,322 |
| **Per Share Data:** | | | |
| Basic Earnings Per Share | **$ 0.87** | $ 0.82 | $ 0.88 |
| Diluted Earnings Per Share | **$ 0.86** | $ 0.82 | $ 0.88 |

*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 (Loss) | Treasury Stock | Unearned ESOP Shares | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **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 gains (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) |
| Net increase 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 |
| Comprehensive income | | | | | | | |
| Net income | -0- | -0- | 47,246 | -0- | -0- | -0- | 47,246 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized holding gains (losses) on securities arising during the period | -0- | -0- | -0- | 33,630 | -0- | -0- | 33,630 |
| Less: reclassification adjustment for gains on securities included in net income | -0- | -0- | -0- | (1,134) | -0- | -0- | (1,134) |
| Total other comprehensive income | -0- | -0- | -0- | 32,496 | -0- | -0- | 32,496 |
| Total comprehensive income | -0- | -0- | 47,246 | 32,496 | -0- | -0- | 79,742 |
| Cash dividends declared | -0- | -0- | (32,850) | -0- | -0- | -0- | (32,850) |
| Decrease in unearned ESOP shares | -0- | (113) | -0- | -0- | -0- | 906 | 793 |
| Discount on dividend reinvestment plan purchases | -0- | (593) | -0- | -0- | -0- | -0- | (593) |
| Treasury stock acquired | -0- | -0- | -0- | -0- | (873) | -0- | (873) |
| Treasury stock reissued | -0- | (476) | -0- | -0- | 1,655 | -0- | 1,179 |
| Tax benefit of stock options | -0- | 75 | -0- | -0- | -0- | -0- | 75 |
| **Balance at December 31, 2000** | 62,525 | 67,223 | 272,169 | (7,808) | (54,666) | (5,287) | 334,156 |
| Comprehensive income | | | | | | | |
| Net income | -0- | -0- | 50,189 | -0- | -0- | -0- | 50,189 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized holding gains (losses) on securities arising during the period | -0- | -0- | -0- | 18,639 | -0- | -0- | 18,639 |
| Less: reclassification adjustment for gains on securities included in net income | -0- | -0- | -0- | (2,128) | -0- | -0- | (2,128) |
| Total other comprehensive income | -0- | -0- | -0- | 16,511 | -0- | -0- | 16,511 |
| Total comprehensive income | -0- | -0- | 50,189 | 16,511 | -0- | -0- | 66,700 |
| Cash dividends declared | -0- | -0- | (34,139) | -0- | -0- | -0- | (34,139) |
| Decrease in unearned ESOP shares | -0- | 31 | -0- | -0- | -0- | 1,161 | 1,192 |
| Discount on dividend reinvestment plan purchases | -0- | (612) | -0- | -0- | -0- | -0- | (612) |
| Treasury stock reissued | -0- | (735) | -0- | -0- | 3,235 | -0- | 2,500 |
| Tax benefit of stock options | -0- | 269 | -0- | -0- | -0- | -0- | 269 |
| **Balance at December 31, 2001** | $ 62,525 | $ 66,176 | $ 288,219 | $ 8,703 | $ (51,431) | $ (4,126) | $ 370,066 |

*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, | | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| **Operating Activities** | | | |
| Net income | **$ 50,189** | $ 47,246 | $ 53,030 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for credit losses | **11,495** | 10,030 | 9,450 |
| Depreciation and amortization | **7,760** | 7,480 | 7,735 |
| Net gains on sales of assets | **(4,169)** | (1,929) | (5,192) |
| Income from increase in cash surrender value of bank owned life insurance | **(4,618)** | (3,419) | (2,126) |
| Decrease (increase) in interest receivable | **3,559** | (932) | (773) |
| Increase (decrease) in interest payable | **(19,387)** | 7,620 | 1,815 |
| Increase in income taxes payable | **3,491** | 255 | 445 |
| Change in deferred taxes | **(831)** | 1,533 | 287 |
| Other–net | **(1,165)** | (1,751) | (11,922) |
| Net cash provided by operating activities | **46,324** | 66,133 | 52,749 |
| **Investing Activities** | | | |
| Transactions with securities held to maturity: | | | |
| Sales | **-0-** | -0- | -0- |
| Maturities and redemptions | **133,666** | 67,735 | 127,566 |
| Purchases of investment securities | **(28,772)** | (17,458) | (93,151) |
| Transactions with securities available for sale: | | | |
| Sales | **85,737** | 22,391 | 39,282 |
| Maturities and redemptions | **497,640** | 108,636 | 193,605 |
| Purchases of investment securities | **(785,610)** | (173,514) | (398,933) |
| Proceeds from sales of loans and other assets | **90,241** | 36,482 | 99,692 |
| Sale of subsidiary | **-0-** | -0- | (2,431) |
| Investment in bank owned life insurance | **(15,000)** | (15,000) | (20,000) |
| Net decrease (increase) in interest-bearing bank deposits | **(3,823)** | 790 | 689 |
| Net increase in loans | **(178,465)** | (36,435) | (227,347) |
| Purchases of premises and equipment | **(7,886)** | (7,736) | (5,197) |
| Net cash used by investing activities | **(212,272)** | (14,109) | (286,225) |
| **Financing Activities** | | | |
| Proceeds from issuance of other long-term debt | **9,500** | 89,900 | 25,000 |
| Repayments of other long-term debt | **(974)** | (70,493) | (50,319) |
| Proceeds from issuance of company obligated mandatorily redeemable capital securities of subsidiary trust | **-0-** | -0- | 35,000 |
| Discount on dividend reinvestment plan purchases | **(612)** | (593) | (358) |
| Dividends paid | **(33,809)** | (32,553) | (27,825) |
| Net increase (decrease) in Federal funds purchased | **91,425** | 13,875 | (45,025) |
| Net increase (decrease) in other short-term borrowings | **64,138** | (166,531) | 329,306 |
| Sale of branch and deposits, net of cash received | **(9,591)** | -0- | -0- |
| Stock option tax benefit | **269** | 75 | -0- |
| Acquisition of treasury stock | **-0-** | (873) | (51,331) |
| Reissuance of treasury stock | **2,500** | 326 | 1,453 |
| Net increase in deposits | **39,384** | 115,318 | 21,333 |
| Net cash provided (used) by financing activities | **162,230** | (51,549) | 237,234 |
| Net increase (decrease) in cash and cash equivalents | **(3,718)** | 475 | 3,758 |
| Cash and cash equivalents at January 1 | **101,848** | 101,373 | 97,615 |
| Cash and cash equivalents at December 31 | **$ 98,130** | $ 101,848 | $ 101,373 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Years Ended December 31, 2001, 2000 and 1999*

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 the United States of America. 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 is subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Corporation 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.

**Reclassifications**

Financial statement amounts in prior periods have been reclassified to conform to the presentation format used in 2001. The reclassifications had no effect on the Corporation's financial condition or results of operations.

**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.

**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**

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. 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 in the amount of $84,788 and $65,961 at December 31, 2001 and 2000, respectively.

**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.

The Corporation records computer software in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). The statement identifies the following three stages of software development: the preliminary project stage, the application development stage and the post-implementation stage. In compliance with SOP 98-1, the Corporation expenses costs incurred during the preliminary project stage and capitalizes certain costs incurred during the application development stage. Once software is in operation, maintenance costs are expensed over the maintenance period while upgrades which result in additional functionality or enhancement are capitalized. Training and data conversion costs are expensed as incurred. Capitalized costs are amortized on a straight-line basis over a period of 3-7 years, depending on the life of the software license.

**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 FASB Statement 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.

**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, net of related tax effects.

**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.

**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%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar Amounts in Thousands, except per share data)*

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

**Stock Split** (continued)

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 prior periods have been restated to reflect the stock split as if it had occurred at the beginning of the earliest period presented.

**Employee Stock Ownership Plan**

Accounting treatment for the Corporation's Employee Stock Ownership Plan ("ESOP") described in NOTE 21 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 or paid to the plan participants. 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 22).

**Derivative Instruments and Hedging Activities**

Effective January 1, 2001, the Corporation adopted the Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133") as amended. 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 on a balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives must be recognized in earnings when they occur unless the derivative qualifies as a hedge. If a derivative qualifies as a hedge, a company can elect to use hedge accounting to eliminate or reduce income statement volatility that would arise from reporting changes in a derivative's fair value in income. FAS No. 133 was amended by FASB Statement No. 137 ("FAS No. 137") which delayed the effective date of FAS No. 133 to the first quarter of fiscal years beginning after June 15, 2000. FAS No. 133 was also amended by FASB Statement No. 138 ("FAS No. 138") which addresses and clarifies issues causing implementation difficulties for numerous entities applying FAS No. 133. FAS No. 138 includes amendments to FAS No. 133 which resulted from decisions made by the FASB related to the Derivatives Implementation Group ("DIG") process. The DIG was created by the FASB to facilitate implementation by identifying issues that arise from applying the requirements of FAS No. 133 and to advise the FASB on how to resolve those issues. The Corporation currently has no freestanding derivative or hedging instruments. Management reviewed contracts from various functional areas of the Corporation to identify potential derivatives embedded within selected contracts. In accordance with the guidance provided in DIG Issue C13, management identified embedded derivatives in some loan commitments for residential mortgages where the Corporation has intent to sell to an investor such as the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae").

Due to the short-term nature of these loan commitments (30 days or less) and the historical dollar amount of commitments outstanding at period end, the adoption of FAS No. 133 did not have a material impact on the Corporation's financial condition or results of operations.

**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.

**New Accounting Pronouncements**

In September 2000, the FASB issued statement No. 140, "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities" ("FAS No. 140") which replaces FASB Statement No. 125 ("FAS No. 125"), issued in June 1996. FAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of FAS No. 125. The statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. FAS No. 140 is effective for transfers occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for years ending after December 15, 2000. Implementation of FAS No. 140 did not have a material impact on the Corporation's financial condition or results of operations.

In July 2001, the FASB issued statement No. 141, "Business Combinations" ("FAS No. 141") which supersedes APB Opinion No. 16 "Business Combinations" ("Opinion No. 16") but carries forward the guidance in Opinion No. 16 related to the application of the purchase method of accounting. FAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of interest method. FAS No. 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Intangible assets are recognized as assets apart from goodwill if the asset arises from contractual or other legal rights or the asset is capable of being separated from the acquired entity and sold or exchanged. In addition to the disclosure requirements in Opinion No. 16, FAS No. 141 requires disclosure of the primary reasons for the business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. After initial recognition, goodwill and other intangible assets acquired in a business combination are accounted for following the provisions of FASB statement No. 142 "Goodwill and Other Intangible Assets." Implementation of FAS No. 141 is not expected to have material impact on the Corporation's financial condition or results of operations.

In July 2001, the FASB issued statement No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"), which supersedes APB Opinion No. 17, "Intangible Assets" and is effective for fiscal years beginning after December 15, 2001. FAS No. 142 addresses how intangible assets acquired other than by business combination should be accounted for in financial statements upon their acquisition. This statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. Additional provisions of FAS No. 142 include the reclassification of certain existing recognized intangibles to goodwill and reclassification of certain intangibles out of previously reported goodwill upon adoption. FAS No. 142 requires that goodwill and other intangible assets with indefinite useful lives, including goodwill recorded in past business combinations, no longer be amortized, but instead be tested for impairment at least annually and written down and charged to results of operations only in the periods in which the recorded value is more than the estimated fair value. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. This statement also requires the Corporation to complete a transitional goodwill impairment test including the identification of reporting units for the purpose of assessing potential future impairments of goodwill. After identifying its reporting units, the Corporation must determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units and then determine the fair value of each reporting unit. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. Any transitional impairment loss resulting from the adoption of FAS No. 142 will be recognized as the effect of a change in accounting principle in the Corporation's income statement.

FAS No. 142 requires disclosure of information about goodwill and other intangible assets in years subsequent to their acquisition which was not previously required, including changes in the carrying amount of goodwill from period to period, the carrying amount of intangible assets and for assets subject to amortization, the estimated amortization expense for the next five years.

As of December 31, 2001, the Corporation had goodwill, net of accumulated amortization, of approximately $5,800, which would be subject to the transitional assessment provisions of FAS No. 142. Goodwill amortization expense was $837 during fiscal 2001, or $0.014 per share. The elimination of goodwill amortization is expected to reduce other operating expenses in periods beginning after

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar Amounts in Thousands, except per share data)*

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

**New Accounting Pronouncements** (continued)

December 31, 2001, by $837 annually. Management is currently assessing, but has not yet determined, the full impact of FAS No. 142 on the Corporation's financial condition or results of operations.

In June 2001, the FASB issued statement No. 143, "Accounting for Asset Retirement Obligations" ("FAS No. 143") which is effective for financial statements issued for fiscal years beginning after June 15, 2002. The statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. FAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. Implementation of FAS No. 143 is not expected to have a material impact on the Corporation's financial condition or results of operations.

In August 2001, the FASB issued statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144") which is effective for financial statements issued for fiscal years beginning after December 15, 2001, including interim periods. This statement supersedes FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". FAS No. 144 requires that long-lived assets be reviewed 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 undiscounted cash flows expected to result from the use and disposition 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 the market value of the asset. This statement also requires measurement of long-lived assets classified as held for sale at the lower of their carrying amount or fair value less cost to sell and to cease depreciation or amortization on these assets. Implementation of FAS No. 144 is not expected to have a material impact on the Corporation's financial condition or results of operations.

NOTE 2—*Supplemental Comprehensive Income Disclosures*

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, 2001** | | | December 31, 2000 | | | December 31, 1999 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | **$ 28,676** | **$(10,037)** | **$ 18,639** | $ 51,739 | $(18,109) | $ 33,630 | $ (64,826) | $ 22,689 | $(42,137) |
| Less: reclassification adjustment for gains realized in net income | **(3,274)** | **1,146** | **(2,128)** | (1,745) | 611 | (1,134) | (563) | 197 | (366) |
| Net unrealized gains (losses) | **25,402** | **(8,891)** | **16,511** | 49,994 | (17,498) | 32,496 | (65,389) | 22,886 | (42,503) |
| Other comprehensive income | **$ 25,402** | **$ (8,891)** | **$ 16,511** | $ 49,994 | $(17,498) | $ 32,496 | $ (65,389) | $ 22,886 | $(42,503) |

NOTE 3—*Supplemental Cash Flow Disclosures*

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest | **$ 186,558** | $ 166,919 | $ 150,839 |
| Income taxes | **$ 11,890** | $ 12,842 | $ 18,832 |
| Noncash investing and financing activities: | | | |
| ESOP loan reductions | **$ 1,161** | $ 906 | $ 1,814 |
| Loans transferred to other real estate owned and repossessed assets | **$ 5,246** | $ 6,405 | $ 4,936 |
| Gross increase (decrease) in market value adjustment to securities available for sale | **$ 25,402** | $ 49,994 | $ (65,389) |
| Treasury stock reissued for insurance agency interest acquired | **$ -0-** | $ 852 | $ -0- |

NOTE 4—*Joint Venture Buy-Out of Insurance Agency*

When the Corporation formed First Commonwealth Insurance Agency ("FCIA"), its wholly-owned subsidiary, it entered into a joint venture agreement with a partner to assist FCIA in establishing itself as a full service insurance agency in exchange for an undivided 50% interest in FCIA's expiring list of policy holders. Effective August 31, 2000 the Corporation acquired the 50% interest in the policy holders' list owned by its joint venture partner; thereby becoming the sole owner of such list. In exchange, the joint venture partner received 89,742 shares of the Corporation's common stock.

NOTE 5—*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 6—*Subsequent Event*

Effective March 1, 2002, the Corporation acquired all of the outstanding shares of Strategic Capital Concepts, Inc. ("SCC") and Strategic Financial Advisors, Inc. ("SFA"), each a Pennsylvania corporation headquarted in Allison Park, Pennsylvania. As a registered investment adviser, Strategic Capital Concepts provides financial planning, asset management and consulting services to individuals, businesses, retirement plans, trusts and estates. Strategic Financial Advisors offers investment and insurance products as well as employee benefit services. Each of the outstanding shares of Strategic Capital Concepts, Inc. and Strategic Financial Advisors, Inc. were exchanged for shares of the Corporation's common stock. In addition, the shareholders of SCC and SFA are entitled to receive additional shares of the Corporation's common stock for each of the years 2002 through 2005 based on a formula defined in the merger agreement which takes into consideration the financial performance of SCC and SFA after the merger date. The merger was accounted for as a purchase transaction whereby the identifiable tangible and intangible assets and liabilities of SCC and SFA have been recorded at their fair values at the acquisition date. As prescribed under the purchase method of accounting, the results of operations of SCC and SFA from the date of acquisition will be included in the Corporation's financial statements for the first quarter of 2002.

NOTE 7—*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 $4,269 during 2001 and $3,075 during 2000.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar Amounts in Thousands)*

NOTE 8—*Securities Available For Sale*

Below is an analysis of the amortized cost and approximate fair values of securities available for sale at December 31, 2001 and 2000:

| | **2001** | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **$ 13,084** | **$ 137** | **$ -0-** | **$ 13,221** | $ 9,972 | $ 77 | $ -0- | $ 10,049 |
| Obligations of U.S. Government Corporation and Agencies: | | | | | | | | |
| Mortgage Backed Securities | **840,639** | **8,140** | **(954)** | **847,825** | 752,481 | 1,636 | (7,126) | 746,991 |
| Other | **113,464** | **2,181** | **(5)** | **115,640** | 117,585 | 125 | (370) | 117,340 |
| Obligations of States and Political Subdivisions | **103,492** | **749** | **(1,599)** | **102,642** | 76,066 | 606 | (1,376) | 75,296 |
| Debt Securities Issued by Foreign Governments | **175** | **-0-** | **-0-** | **175** | 425 | -0- | -0- | 425 |
| Corporate Securities | **229,259** | **5,382** | **(3,657)** | **230,984** | 142,933 | 1,814 | (6,271) | 138,476 |
| Other Mortgage Backed Securities | **110,512** | **2,438** | **(32)** | **112,918** | 97,922 | 336 | (418) | 97,840 |
| Total Debt Securities | **1,410,625** | **19,027** | **(6,247)** | **1,423,405** | 1,197,384 | 4,594 | (15,561) | 1,186,417 |
| Equities | **45,091** | **622** | **-0-** | **45,713** | 52,824 | -0- | ( 1,011) | 51,813 |
| Total Securities Available for Sale | **$ 1,455,716** | **$ 19,649** | **$ (6,247)** | **$ 1,469,118** | $ 1,250,208 | $ 4,594 | $ (16,572) | $ 1,238,230 |

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 17 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, 2001 and 2000, 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, 2001, 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 | $ 16,783 | $ 16,845 |
| Due after 1 but within 5 years | 248,220 | 255,507 |
| Due after 5 but within 10 years | 11,042 | 11,098 |
| Due after 10 years | 183,429 | 179,212 |
| | 459,474 | 462,662 |
| Mortgage Backed Securities | 951,151 | 960,743 |
| Total Debt Securities | $ 1,410,625 | $ 1,423,405 |

Proceeds from the sales of securities available for sale were $85,737, $22,391 and $39,282 during 2001, 2000 and 1999 respectively. Gross gains of $3,419, $1,752 and $541 and gross losses of $224, $18 and $-0- were realized on those sales during 2001, 2000 and 1999, respectively.

Securities available for sale with an approximate fair value of $637,915 and $626,719 were pledged at December 31, 2001 and 2000, respectively, to secure public deposits and for other purposes required or permitted by law.

NOTE 9—*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, 2001 and 2000:

| | **2001** | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 Corporation and Agencies: | | | | | | | | |
| Mortgage Backed Securities | **$ 133,687** | **$ 2,594** | **$ (166)** | **$ 136,115** | $ 148,522 | $ 635 | $ (604) | $ 148,553 |
| Other | **29,998** | **1,360** | **-0-** | **31,358** | 99,844 | 194 | (129) | 99,909 |
| Obligations of States and Political Subdivisions | **107,130** | **1,545** | **(788)** | **107,887** | 126,514 | 1,355 | (807) | 127,062 |
| Debt Securities Issued by Foreign Governments | **383** | **-0-** | **-0-** | **383** | 357 | -0- | -0- | 357 |
| Corporate Securities | **22,092** | **808** | **-0-** | **22,900** | 22,154 | 140 | (227) | 22,067 |
| Other Mortgage Backed Securities | **-0-** | **-0-** | **-0-** | **-0-** | 716 | -0- | (3) | 713 |
| Total Securities Held to Maturity | **$ 293,290** | **$ 6,307** | **$ (954)** | **$ 298,643** | $ 398,107 | $ 2,324 | $ (1,770) | $ 398,661 |

The amortized cost and estimated market value of debt securities at December 31, 2001, 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 | $ 13,029 | $ 13,365 |
| Due after 1 but within 5 years | 56,795 | 58,977 |
| Due after 5 but within 10 years | 24,198 | 24,866 |
| Due after 10 years | 65,581 | 65,320 |
| | 159,603 | 162,528 |
| Mortgage Backed Securities | 133,687 | 136,115 |
| Total Debt Securities | $ 293,290 | $ 298,643 |

There were no sales of securities held to maturity in 2001, 2000 or 1999.

Securities held to maturity with an amortized cost of $205,150 and $245,908 were pledged at December 31, 2001 and 2000, respectively, to secure public deposits and for other purposes required or permitted by law.

NOTE 10—*Loans (all domestic)*

Loans at year end were divided among these general categories:

| | December 31, | |
|---|---|---|
| | **2001** | 2000 |
| Commercial, financial, agricultural and other | **$ 529,300** | $ 443,618 |
| Real estate loans: | | |
| Construction and land development | **14,727** | 37,146 |
| 1-4 family dwellings | **849,787** | 932,915 |
| Other real estate loans | **638,576** | 560,066 |
| Loans to individuals for household, family and other personal expenditures | **473,515** | 450,154 |
| Leases, net of unearned income | **63,326** | 68,975 |
| Subtotal | **2,569,231** | 2,492,874 |
| Unearned income | **(1,297)** | (2,047) |
| Total loans and leases | **$ 2,567,934** | $ 2,490,827 |

Most of the Corporation's business activity was with customers located within Pennsylvania. The portfolio is well diversified, and as of December 31, 2001 and 2000, there were no significant concentrations of credit.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Dollar Amounts in Thousands)*

NOTE 11—*Allowance for Credit Losses*

Description of changes:

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Allowance at January 1 | **$ 33,601** | $ 33,539 | $ 32,304 |
| Additions: | | | |
| Recoveries of previously charged off loans | **1,281** | 1,299 | 1,381 |
| Provision charged to operating expense | **11,495** | 10,030 | 9,450 |
| Deductions: | | | |
| Loans charged off | **12,220** | 11,267 | 9,596 |
| Allowance at December 31 | **$ 34,157** | $ 33,601 | $ 33,539 |

Relationship to impaired loans:

| | **2001** | 2000 |
|---|---|---|
| Recorded investment in impaired loans at end of period | **$ 23,731** | $ 12,961 |
| Average balance for impaired loans for the year | **$ 16,133** | $ 13,154 |
| Allowance for credit losses related to impaired loans | **$ 3,835** | $ 2,187 |
| Impaired loans with an allocation of the allowance for credit losses | **$ 16,266** | $ 4,679 |
| Impaired loans with no allocation of the allowance for credit losses | **$ 7,465** | $ 8,282 |
| Income recorded on impaired loans on a cash basis | **$ 750** | $ 333 |

NOTE 12—*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, 2001 and 2000, 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, 2001 and 2000:

| | **2001** | 2000 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | **$ 517,587** | $ 445,200 |
| Standby letters of credit | **$ 48,739** | $ 37,787 |
| Commercial letters of credit | **$ 390** | $ 471 |

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 13—*Premises and Equipment*

Premises and equipment are described as follows:

| | Estimated Useful Life | **2001** | 2000 |
|---|---|---|---|
| Land | Indefinite | **$ 5,338** | $ 5,336 |
| Buildings and improvements | 7-50 years | **45,910** | 45,296 |
| Leasehold improvements | 7-39 years | **9,960** | 9,839 |
| Furniture and equipment | 3-25 years | **50,771** | 48,643 |
| Software | 3-7 years | **14,231** | 9,926 |
| Subtotal | | **126,210** | 119,040 |
| Less accumulated depreciation and amortization | | **79,844** | 74,369 |
| Total premises and equipment | | **$ 46,366** | $ 44,671 |

Depreciation and amortization related to premises and equipment was $6,153 in 2001, $5,996 and $5,790 in 2000 and 1999, respectively.

NOTE 14—*Interest-Bearing Deposits*

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

| | 2001 | 2000 |
|---|---|---|
| NOW and Super NOW accounts | **$ 61,791** | $ 98,552 |
| Savings and MMDA accounts | **1,028,368** | 919,653 |
| Time deposits | **1,590,296** | 1,696,137 |
| Total interest-bearing deposits | **$ 2,680,455** | $ 2,714,342 |

Interest-bearing deposits at December 31, 2001 and 2000, include reallocations from NOW and Super NOW accounts of $323,490 and $279,779 respectively into Savings and MMDA accounts. These reallocations are based on a formula and have been made to reduce the Corporation's reserve requirement in compliance with regulatory guidelines.

Included in time deposits at December 31, 2001 and 2000, were certificates of deposit in denominations of $100 or more of $497,318 and $455,382 respectively.

Interest expense related to $100 or greater certificates of deposit amounted to $27,922 in 2001, $22,639 in 2000, and $18,103 in 1999.

Included in time deposits at December 31, 2001, were certificates of deposit with the following scheduled maturities:

| | |
|---|---|
| 2002 | $ 977,218 |
| 2003 | 278,473 |
| 2004 | 240,294 |
| 2005 | 54,277 |
| 2006 and thereafter | 39,813 |
| | $ 1,590,075 |

NOTE 15—*Short-term Borrowings*

Short-term borrowings at December 31 were as follows:

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | **Ending Balance** | **Average Balance** | **Average Rate** | Ending Balance | Average Balance | Average Rate |
| Federal funds purchased | **$ 108,250** | **$ 46,608** | **3.28%** | $ 16,825 | $ 49,990 | 6.28% |
| Borrowings from FHLB | **40,000** | **9,918** | **2.45%** | -0- | 20,814 | 6.03% |
| Securities sold under agreements to repurchase | **216,486** | **214,900** | **3.95%** | 237,806 | 275,839 | 5.92% |
| Treasury, tax and loan note option | **63,000** | **28,747** | **3.39%** | 17,540 | 24,643 | 6.04% |
| Total | **$ 427,736** | **$300,173** | **3.74%** | $ 272,171 | $ 371,286 | 5.98% |
| Maximum total at any month-end | **$ 427,736** | | | $ 455,285 | | |

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Federal funds purchased | **$ 1,527** | $ 3,138 | $ 4,913 |
| Borrowings from FHLB | **243** | 1,256 | 2,557 |
| Securities sold under agreements to repurchase | **8,483** | 16,335 | 5,825 |
| Treasury, tax and loan note option | **974** | 1,489 | 537 |
| Total interest on short-term borrowings | **$ 11,227** | $ 22,218 | $ 13,832 |

NOTE 16—*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 $35,000) 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 sole asset of the Trust is the $36,083 aggregate liquidation amount of the junior subordinated debentures. 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.

NOTE 16—*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 $34,200. 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 17—*Other Long-term Debt*

Other Long-term debt at December 31, follows:

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **Amount** | **Rate** | Amount | Rate |
| ESOP loan due | | | | |
| December, 2005 | **$ 4,126** | **Libor +1%** | $ 5,287 | Libor +1% |
| Borrowings from FHLB due: | | | | |
| November, 2002 | **50,000** | **5.82%** | 50,000 | 5.82% |
| December, 2002 | **50,000** | **5.71%** | 50,000 | 5.71% |
| September, 2007 | **5,000** | **6.94%** | 5,000 | 6.94% |
| February, 2008 | **100,000** | **5.45%** | 100,000 | 5.45% |
| February, 2008 | **100,000** | **5.48%** | 100,000 | 5.48% |
| May, 2008 | **100,000** | **5.67%** | 100,000 | 5.67% |
| November, 2008 | **50,000** | **5.03%** | 50,000 | 5.03% |
| December, 2008 | **65,000** | **4.96%** | 65,000 | 4.96% |
| February, 2010 | **25,000** | **6.12%** | 25,000 | 6.12% |
| December, 2010 | **55,000** | **4.70%** | 55,000 | 4.70% |
| April, 2011 | **7,121** | **5.68%** | -0- | |
| March, 2016 | **1,935** | **5.65%** | -0- | |
| December, 2017 | **6,798** | **6.17%** | 7,038 | 6.17% |
| June, 2019 | **8,375** | **5.72%** | 8,644 | 5.72% |
| April, 2020 | **865** | **7.37%** | 886 | 7.37% |
| | **$ 629,220** | | $ 621,855 | |

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 17, but are described in NOTE 16.

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

| | 2002 | 2003 | 2004 | 2005 | 2006 | Thereafter |
|---|---|---|---|---|---|---|
| Loan payments | $102,321 | $2,385 | $2,261 | $2,624 | $1,576 | $518,053 |

NOTE 18—*Common Share Commitments*

At December 31, 2001 and 2000, the Corporation had 100,000,000 common shares authorized and 62,525,412 shares outstanding. Outstanding shares were reduced by 4,073,788 shares of treasury stock at December 31, 2001 and 4,329,962 shares at December 31, 2000. The Corporation may be required to issue additional shares to satisfy common share purchases related to the employee stock ownership plan described in NOTE 21. The dilutive effect of stock options outstanding on average shares outstanding in the diluted earnings per share reported on the income statement were 232,579, 59,742 and 236,230 shares at December 31, 2001, 2000 and 1999, respectively.

During 2000, 78,380 shares of treasury stock were acquired at an average price of $11.14. Treasury shares consisting of 256,174 and 41,240 were reissued during 2001 and 2000 upon exercise of stock options.

During 2000, 89,742 shares of treasury stock were reissued to fund the buy-out of the insurance agency's joint-venture partner, as described in NOTE 4.

NOTE 19—*Income Taxes*

The income tax provision consists of:

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Current tax provision for income exclusive of securities transactions: | | | |
| Federal | **$ 14,865** | $ 12,155 | $ 19,111 |
| State | **55** | (10) | 16 |
| Securities transactions | **1,165** | 611 | 198 |
| Total current tax provision | **16,085** | 12,756 | 19,325 |
| Deferred tax provision (benefit) | **(831)** | 1,533 | 287 |
| Total tax provision | **$ 15,254** | $ 14,289 | $ 19,612 |

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, 2001 and 2000, were as follows:

| | 2001 | 2000 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for credit losses | **$ 11,965** | $ 11,765 |
| Postretirement benefits other than pensions | **1,005** | 996 |
| Accumulated depreciation | **237** | 439 |
| Unrealized loss on securities available for sale | **0** | 4,204 |
| Other | **1,060** | 894 |
| Total deferred tax assets | **14,267** | 18,298 |
| Deferred tax liabilities: | | |
| Accumulated accretion of bond discount | **(295)** | (389) |
| Lease financing deduction | **(10,535)** | (10,643) |
| Loan origination fees and costs | **(999)** | (1,319) |
| Basis difference in assets acquired | **(453)** | (674) |
| Pension expense | **(281)** | (231) |
| Unrealized gain on securities available for sale | **(4,686)** | -0- |
| Other | **(315)** | (280) |
| Total deferred tax liabilities | **(17,564)** | (13,536) |
| Net deferred tax asset (liability) | **$ (3,297)** | $ 4,762 |

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:

| | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **Amount** | **% of Pretax Income** | Amount | % of Pretax Income | Amount | % of Pretax Income |
| Tax at statutory rate | **$ 22,905** | **35.0** | $ 21,537 | 35.0 | $ 25,425 | 35.0 |
| Increase (decrease) resulting from: | | | | | | |
| Effect of nontaxable income | **(7,137)** | **(10.9)** | (6,595) | (10.7) | (5,247) | (7.2) |
| State income taxes | **55** | **0.1** | (10) | (0.0) | 16 | 0.0 |
| Other | **(569)** | **(0.9)** | (643) | (1.1) | (582) | (0.8) |
| Total tax provision | **$ 15,254** | **23.3** | $ 14,289 | 23.2 | $ 19,612 | 27.0 |

NOTE 20—*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. During a prior period the ESOP acquired shares of the Corporation's common stock in a transaction whereby the Corporation borrowed the required funds and concurrently loaned this amount to the ESOP. The borrowed amount represents leveraged and unallocated shares, and accordingly has been recorded as long-term debt and the offset as a reduction of common shareholders' equity. Compensation costs related to the plan were $1,173 in 2001, $1,005 in 2000 and $1,555 in 1999. (See NOTE 21).

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 of which up to 4% is matched 100% by the employer's contribution. The 401(k) plan expense was $2,583 in 2001, $2,444 in 2000 and $2,328 in 1999. Effective February 1, 2002, the Corporation's 401(k) plan was modified to permit each participating employee to contribute up to 80% of compensation to the plan of which up to 4% is matched 100% by the employer's contribution.

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 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.

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 $150 in 2001, $182 in 2000, and $153 in 1999.

**Pension Plan of Acquired Subsidiary**

The noncontributory defined benefit pension plan of Southwest Bank covered all eligible employees and provided benefits based on each employee's years of service and compensation. On December 31, 1998, the participants' accrued benefit was frozen and participation in the First Commonwealth Financial Corporation ESOP Plan with no lapse in credited service began. The Southwest Bank Pension Plan was terminated effective December 31, 2001. As the result of the plan termination an asset reversion of $1,271 and a gain, net of applicable excise tax, of $277 were recognized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Dollar Amounts in Thousands)*

NOTE 20—*Retirement Plans (continued)*

**Pension Plan of Acquired Subsidiary** (continued)

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

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Service cost | **$ -0-** | $ -0- | $ -0- |
| Interest cost on projected benefit obligation | **346** | 343 | 394 |
| Expected return on plan assets | **(438)** | (542) | (261) |
| Net amortization and deferral | **(33)** | 93 | (153) |
| Net periodic pension cost (benefit) | **$ (125)** | $ (106) | $ (20) |

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:

| | **2001** | 2000 |
|---|---|---|
| Market value of plan assets | **$ 1,271** | $ 6,785 |
| Projected benefit obligation | **-0-** | 5,822 |
| Plan assets greater than projected benefit obligation | **1,271** | 963 |
| Unrecognized net transition asset | **-0-** | (62) |
| Unrecognized net loss (gain) | **-0-** | (223) |
| Settlement loss (gain) | **(1,271)** | -0- |
| Prepaid pension expense recognized on the balance sheet | **$ -0-** | $ 678 |
| Actuarial present value of accumulated benefits, including vested benefits of $0 and $5,665 | **$ -0-** | $ 5,822 |

The following table sets forth the change in benefit obligation:

| | **2001** | 2000 |
|---|---|---|
| Benefit obligation at beginning of year | **$ 5,822** | $ 5,765 |
| Service cost | **-0-** | -0- |
| Interest cost | **346** | 343 |
| Benefit payment | **(6,496)** | (242) |
| Actuarial loss (gain) | **-0-** | (44) |
| Settlement loss | **328** | -0- |
| Benefit obligation at end of year | **$ -0-** | $ 5,822 |

The following table sets forth the change in plan assets:

| | **2001** | 2000 |
|---|---|---|
| Fair value of plan assets at beginning of year | **$ 6,785** | $ 6,485 |
| Return on plan assets | **982** | 542 |
| Employer contribution | **-0-** | -0- |
| Benefits paid | **(6,496)** | (242) |
| Fair value of plan assets at end of year | **$ 1,271** | $ 6,785 |

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

| | **2001** | 2000 |
|---|---|---|
| Discount rates | **6.0%** | 6.0% |
| Rates of increase in compensation levels | **N/A** | N/A |
| Expected long-term rate of return on assets | **6.5%** | 6.5% |

**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:

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Service cost | **$ 6** | $ 7 | $ 13 |
| Interest cost on projected benefit obligation | **232** | 190 | 197 |
| Amortization of transition obligation | **2** | 2 | 2 |
| Loss amortization | **65** | -0- | 48 |
| Net periodic benefit cost | **$ 305** | $ 199 | $ 260 |

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:

| | **2001** | 2000 |
|---|---|---|
| Accumulated postretirement benefit obligation: | | |
| Retirees | **$ 3,941** | $ 3,413 |
| Actives | **210** | 177 |
| Total accumulated postretirement benefit obligation | **4,151** | 3,590 |
| Plan assets at fair value | **-0-** | -0- |
| Accumulated postretirement benefit obligation in excess of plan assets | **4,151** | 3,590 |
| Unrecognized transition obligation | **(18)** | (19) |
| Unrecognized net loss | **(1,262)** | (729) |
| Accrued benefit liability recognized on the balance sheet | **$ 2,871** | $ 2,842 |

The following table sets forth the change in benefit obligation:

| | **2001** | 2000 |
|---|---|---|
| Benefit obligation at beginning of year | **$ 3,590** | $ 2,959 |
| Service cost | **6** | 7 |
| Interest cost | **232** | 190 |
| Benefit payments | **(276)** | (239) |
| Actuarial loss (gain) | **599** | 673 |
| Benefit obligation at end of year | **$ 4,151** | $ 3,590 |

The discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation was 6.75% for 2001 and 2000. The health care cost trend rates used for 2001 and 2000 were projected at an initial rate of 6.75% decreasing over time to an annual rate of 4.25% for indemnity plan participants and an initial rate of 6.00% decreasing over time to an annual rate of 4.00% for non-indemnity plan participants.

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 | $ 18 | $ (16) |
| Effect on postretirement benefit obligation | $ 259 | $ (235) |

NOTE 21—*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 $4,126 at December 31, 2001 and $5,287 at December 31, 2000.

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 five 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 shares" and "new shares")

| | Total | Old Shares | New Shares |
|---|---|---|---|
| Shares in suspense December 31, 1999 | 598,687 | 146,578 | 452,109 |
| Shares allocated during 2000 | (105,166) | (25,748) | (79,418) |
| Shares in suspense December 31, 2000 | 493,521 | 120,830 | 372,691 |
| Shares allocated during 2001 | (120,961) | (29,616) | (91,345) |
| Shares in suspense December 31, 2001 | 372,560 | 91,214 | 281,346 |

The fair market value of the new shares remaining in suspense was approximately $3,241 and $3,727 at December 31, 2001 and 2000, respectively.

Interest on ESOP loans was $263 in 2001, $446 in 2000 and $460 in 1999. During 2001, 2000 and 1999, dividends on unallocated shares in the amount of $301, $354 and $369 respectively were used for debt service while all dividends on allocated shares were allocated or paid to the participants.

NOTE 22—*Stock Option Plan*

At December 31, 2001, 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 4.5 million shares of the Corporation's common stock through October 15, 2005. Although the vesting requirements and terms of future options granted are at the discretion of the executive compensation committee, all options granted during the years 1997, 1998, 1999, 2000 and 2001 were exercisable by December 31 of each year, respectively, 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:

| | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **As Reported** | **Pro Forma** | As Reported | Pro Forma | As Reported | Pro Forma |
| Net Income | **$ 50,189** | **$48,211** | $ 47,246 | $ 47,130 | $53,030 | $ 52,197 |
| Basic earnings per share | **$ 0.87** | **$ 0.83** | $ 0.82 | $ 0.82 | $ 0.88 | $ 0.87 |
| Diluted earnings per share | **$ 0.86** | **$ 0.83** | $ 0.82 | $ 0.82 | $ 0.88 | $ 0.86 |

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:

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Dividend yield | **5.59% per annum** | 5.65% per annum | 4.29% per annum |
| Expected volatility | **55.1%** | 61.7% | 31.4% |
| Risk-free interest rate | **5.1%** | 5.3% | 6.3% |
| Expected option life | **10.0 years** | 9.1 years | 9.1 years |

A summary of the status of the Corporation's outstanding stock options as of December 31, 2001, 2000 and 1999 and changes for the years ending on those dates is presented below:

| | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Weighted Average Exercise Price** | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | **2,210,651** | **$ 11.12** | 1,680,178 | $11.07 | 1,306,346 | $10.53 |
| Granted | **796,743** | **$ 10.75** | 705,429 | $11.06 | 610,416 | $11.56 |
| Exercised | **(256,174)** | **$ 9.76** | (41,240) | $ 7.93 | (188,570) | $ 8.66 |
| Forfeited | **(63,333)** | **$ 11.89** | (133,716) | $11.63 | (48,014) | $12.08 |
| Outstanding at end of year | **2,687,887** | **$ 11.13** | 2,210,651 | $11.12 | 1,680,178 | $11.07 |
| Exercisable at end of year | **2,687,887** | **$ 11.13** | 2,210,651 | $11.12 | 1,680,178 | $11.07 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
*(Dollar Amounts in Thousands, except per share data)*

NOTE 22—*Stock Option Plan* (continued)

The following table summarizes information about the stock options outstanding at December 31, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding at 12/31/01 | Weighted-Average Remaining Contract Life | Weighted-Average Exercise Price | Number Exercisable at 12/31/01 | Weighted-Average Exercise Price |
| $ 2.79 | 9,680 | 0.3 | $ 2.79 | 9,680 | $ 2.79 |
| $ 4.04 | 8,800 | 1.2 | $ 4.04 | 8,800 | $ 4.04 |
| $9.19-$9.25 | 463,804 | 4.9 | $ 9.23 | 463,804 | $ 9.23 |
| $10.75 | 777,076 | 9.1 | $ 10.75 | 777,076 | $10.75 |
| $11.06 | 592,471 | 8.0 | $ 11.06 | 592,471 | $11.06 |
| $11.56 | 519,424 | 7.0 | $ 11.56 | 519,424 | $11.56 |
| $14.69 | 316,632 | 6.2 | $ 14.69 | 316,632 | $14.69 |
| Total | 2,687,887 | | $ 11.13 | 2,687,887 | $11.13 |

NOTE 23—*Commitments and Contingent Liabilities*

In 1994, a Bank which is now a subsidiary, and its President at that time, were named as defendants in a lender liability action. The Plaintiffs filed a multi-million dollar claim, plus punitive damages. The case, originally scheduled for trial in the first quarter 2002 has been rescheduled for the second quarter 2002. Although the Corporation believes it has meritorious defenses and is vigorously defending itself, it is not possible to predict the outcome of this matter. Insurance may cover some or all of a judgment up to a policy limit of $10 million. Depending upon the specific elements of an adverse judgment, it is possible there will be no insurance coverage for the claims. It is the opinion of management and its legal counsel that the resolution of this matter will not produce a material impact on the Corporation's financial statements.

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

NOTE 24—*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 2001:

| | |
|---|---|
| Balances December 31, 2000 | $ 9,416 |
| Advances | 6,432 |
| Repayments | (6,507) |
| Other | (1,454) |
| Balances December 31, 2001 | $ 7,887 |

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

NOTE 25—*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, 2001, dividends from subsidiary banks were restricted not to exceed $74,233. 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, 2001, the Corporation and its banking subsidiaries meet all capital adequacy requirements to which they are subject.

As of December 31, 2001, 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 institutions' category.

| | Actual | | Regulatory Minimum | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2001 | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 423,649 | 14.0% | $ 241,615 | 8.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 299,167 | 12.4% | $ 192,870 | 8.0% | $ 241,087 | 10.0% |
| Southwest Bank | $ 94,835 | 16.4% | $ 46,349 | 8.0% | $ 57,936 | 10.0% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 389,492 | 12.9% | $ 120,807 | 4.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 272,389 | 11.3% | $ 96,435 | 4.0% | $ 144,652 | 6.0% |
| Southwest Bank | $ 87,594 | 15.1% | $ 23,174 | 4.0% | $ 34,762 | 6.0% |
| Tier I Capital to Average Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 389,492 | 8.5% | $ 138,144 | 3.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 272,389 | 7.7% | $ 106,422 | 3.0% | $ 177,371 | 5.0% |
| Southwest Bank | $ 87,594 | 8.5% | $ 30,895 | 3.0% | $ 51,492 | 5.0% |
| As of December 31, 2000 | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 401,516 | 14.5% | $ 221,294 | 8.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 283,624 | 12.9% | $ 175,783 | 8.0% | $ 219,728 | 10.0% |
| Southwest Bank | $ 91,416 | 16.9% | $ 43,261 | 8.0% | $ 54,077 | 10.0% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 367,915 | 13.3% | $ 110,647 | 4.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 257,789 | 11.7% | $ 87,891 | 4.0% | $ 131,837 | 6.0% |
| Southwest Bank | $ 84,656 | 15.7% | $ 21,631 | 4.0% | $ 32,446 | 6.0% |
| Tier I Capital to Average Assets | | | | | | |
| First Commonwealth Financial Corporation | $ 367,915 | 8.5% | $ 129,749 | 3.0% | Not Applicable | Not Applicable |
| First Commonwealth Bank | $ 257,789 | 7.8% | $ 98,994 | 3.0% | $ 164,990 | 5.0% |
| Southwest Bank | $ 84,656 | 8.5% | $ 29,758 | 3.0% | $ 49,596 | 5.0% |

## NOTE 26—*Condensed Financial Information of First Commonwealth Financial Corporation (parent company only)*

### Balance Sheets

| | December 31, | |
|---|---|---|
| | **2001** | 2000 |
| **Assets** | | |
| Cash | **$ 7,667** | $ 6,169 |
| Securities available for sale | **270** | 81 |
| Loans to affiliated parties | **540** | 479 |
| Investment in subsidiaries | **387,626** | 355,680 |
| Investment in jointly-owned company | **4,570** | 3,980 |
| Premises and equipment | **6,437** | 6,813 |
| Dividends receivable from subsidiaries | **3,986** | 3,757 |
| Receivable from subsidiaries | **8,099** | 7,325 |
| Other assets | **2,280** | 2,174 |
| Total assets | **$ 421,475** | $ 386,458 |
| **Liabilities and Shareholders' Equity** | | |
| Accrued expenses and other liabilities | **$ 2,432** | $ 2,493 |
| Dividends payable | **8,768** | 8,439 |
| Loans payable | **4,126** | 5,287 |
| Subordinated debentures payable | **36,083** | 36,083 |
| Shareholders' equity | **370,066** | 334,156 |
| Total liabilities and shareholders' equity | **$ 421,475** | $ 386,458 |

### Statements of Income

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| Interest and dividends | **$ 42** | $ 41 | $ 149 |
| Dividends from subsidiaries | **40,442** | 61,664 | 36,506 |
| Interest expense | **(3,724)** | (5,335) | (1,758) |
| Net securities gains | **-0-** | -0- | 57 |
| Other revenue | **16** | 31 | 15 |
| Operating expenses | **(7,033)** | (7,451) | (11,476) |
| Income before taxes and equity in undistributed earnings of subsidiaries | **29,743** | 48,950 | 23,493 |
| Applicable income tax benefits | **3,495** | 4,340 | 4,421 |
| Income before equity in undistributed earnings of subsidiaries | **33,238** | 53,290 | 27,914 |
| Equity in undistributed earnings of subsidiaries | **16,951** | (6,044) | 25,116 |
| Net income | **$ 50,189** | $ 47,246 | $ 53,030 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar Amounts in Thousands)*

Note 26—*Condensed Financial Information of First Commonwealth Financial Corporation (parent company only) (continued)*

### Statements of Cash Flows

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2001** | 2000 | 1999 |
| **Operating Activities** | | | |
| Net income | **$ 50,189** | $47,246 | $53,030 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **1,140** | 1,263 | 1,655 |
| Net losses on sale of assets | **-0-** | -0- | 144 |
| Decrease (increase) in prepaid income taxes | **431** | 212 | (242) |
| Undistributed equity in subsidiaries | **(16,951)** | 6,044 | (25,116) |
| Other – net | **(592)** | 97 | (803) |
| Net cash provided by operating activities | **34,217** | 54,862 | 28,668 |
| **Investing Activities** | | | |
| Transactions with securities available for sale: | | | |
| Purchases of investment securities | **(123)** | -0- | -0- |
| Sales of investment securities | **-0-** | -0- | 102 |
| Net change in loans to affiliated parties | **(61)** | 1 | 17 |
| Purchases of premises and equipment | **(90)** | (337) | (1,491) |
| Additional net investment in subsidiary | **(792)** | (3,861) | (2,406) |
| Sale of subsidiary | **-0-** | -0- | 1,709 |
| Net cash used by investing activities | **(1,066)** | (4,197) | (2,069) |
| **Financing Activities** | | | |
| Issuance of subordinated debentures | **-0-** | -0- | 36,083 |
| Issuance of other long-term debt | **-0-** | 4,000 | 16,000 |
| Repayment of other long-term debt | **-0-** | (20,000) | -0- |
| Discount on dividend reinvestment plan purchases | **(612)** | (593) | (358) |
| Treasury stock acquired | **-0-** | (873) | (51,331) |
| Treasury stock reissued | **2,499** | 326 | 1,453 |
| Cash dividends paid | **(33,809)** | (32,553) | (27,825) |
| Stock option tax benefit | **269** | 75 | -0- |
| Net cash used by financing activities | **(31,653)** | (49,618) | (25,978) |
| Net increase in cash | **1,498** | 1,047 | 621 |
| Cash at beginning of year | **6,169** | 5,122 | 4,501 |
| Cash at end of year | **$ 7,667** | $ 6,169 | $ 5,122 |

### 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.

NOTE 27—*Fair Values of Financial Instruments*

Below are various estimated fair values at December 31, 2001 and 2000, 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, 2001 and 2000:

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | Carrying Amount | Estimated Fair Value |
| Financial assets | | | | |
| Cash and due from banks | **$ 98,130** | **$ 98,130** | $ 90,723 | $ 90,723 |
| Interest-bearing deposits with banks | **$ 4,250** | **$ 4,250** | $ 427 | $ 427 |
| Federal funds sold | **$ -0-** | **$ -0-** | $ 11,125 | $ 11,125 |
| Securities available for sale | **$ 1,469,118** | **$ 1,469,118** | $ 1,238,230 | $ 1,238,230 |
| Investments held to maturity | **$ 293,290** | **$ 298,643** | $ 398,107 | $ 398,661 |
| Loans, net of allowance | **$ 2,533,777** | **$ 2,633,443** | $ 2,457,226 | $ 2,530,430 |
| Financial liabilities | | | | |
| Deposits | **$ 3,093,150** | **$ 3,123,845** | $ 3,064,146 | $ 3,047,713 |
| Short-term borrowings | **$ 427,736** | **$ 427,736** | $ 272,171 | $ 272,171 |
| Long-term debt | **$ 664,220** | **$ 650,106** | $ 656,855 | $ 630,511 |

## QUARTERLY SUMMARY OF FINANCIAL DATA - UNAUDITED

*(Dollar Amounts in Thousands, except per share data)*

The unaudited quarterly results of operations for the years ended December 31, 2001 and 2000 are as follows:

| | 2001 | | | |
|---|---|---|---|---|
| | **First Quarter** | **Second Quarter** | **Third Quarter** | **Fourth Quarter** |
| Interest income | **$ 79,080** | **$ 77,371** | **$ 77,557** | **$74,883** |
| Interest expense | **44,848** | **43,413** | **42,000** | **36,909** |
| Net interest income | **34,232** | **33,958** | **35,557** | **37,974** |
| Provision for credit losses | **2,407** | **2,557** | **3,542** | **2,989** |
| Net interest income after provision for credit losses | **31,825** | **31,401** | **32,015** | **34,985** |
| Securities gains | **205** | **1,790** | **1,330** | **4** |
| Other operating income | **9,062** | **8,583** | **9,429** | **9,821** |
| Other operating expenses | **25,456** | **26,003** | **26,033** | **27,515** |
| Income before income taxes | **15,636** | **15,771** | **16,741** | **17,295** |
| Applicable income taxes | **3,613** | **3,737** | **4,023** | **3,881** |
| Net income | **$ 12,023** | **$ 12,034** | **$ 12,718** | **$13,414** |
| Basic earnings per share | **$ 0.21** | **$ 0.21** | **$ 0.22** | **$ 0.23** |
| Diluted earnings per share | **$ 0.21** | **$ 0.21** | **$ 0.22** | **$ 0.23** |
| Average shares outstanding | **57,721,959** | **57,799,443** | **57,975,650** | **58,040,370** |
| Average shares outstanding assuming dilution | **57,802,012** | **58,035,585** | **58,342,525** | **58,284,340** |

| | 2000 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Interest income | $ 76,943 | $ 77,317 | $ 78,471 | $79,151 |
| Interest expense | 41,504 | 42,443 | 44,734 | 45,858 |
| Net interest income | 35,439 | 34,874 | 33,737 | 33,293 |
| Provision for credit losses | 2,505 | 2,415 | 2,505 | 2,605 |
| Net interest income after provision for credit losses | 32,934 | 32,459 | 31,232 | 30,688 |
| Securities gains | -0- | 1,686 | -0- | 59 |
| Other operating income | 7,358 | 8,254 | 8,242 | 8,084 |
| Other operating expenses | 25,150 | 25,048 | 24,709 | 24,554 |
| Income before income taxes | 15,142 | 17,351 | 14,765 | 14,277 |
| Applicable income taxes | 3,691 | 4,261 | 3,209 | 3,128 |
| Net income | $ 11,451 | $ 13,090 | $ 11,556 | $11,149 |
| Basic earnings per share | $ 0.20 | $ 0.23 | $ 0.20 | $ 0.19 |
| Diluted earnings per share | $ 0.20 | $ 0.23 | $ 0.20 | $ 0.19 |
| Average shares outstanding | 57,505,462 | 57,515,772 | 57,565,411 | 57,648,021 |
| Average shares outstanding assuming dilution | 57,606,948 | 57,566,079 | 57,601,162 | 57,699,795 |

## 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. Financial statement amounts for prior periods have also been reclassified to conform to the presentation format used in 2001. The reclassifications had no effect on the Corporation's financial condition or result of operations.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2001** | 2000 | 1999 | 1998 | 1997 |
| Interest income | **$ 308,891** | $ 311,882 | $ 296,089 | $ 282,067 | $ 253,917 |
| Interest expense | **167,170** | 174,539 | 152,653 | 148,282 | 124,427 |
| Net interest income | **141,721** | 137,343 | 143,436 | 133,785 | 129,490 |
| Provision for credit losses | **11,495** | 10,030 | 9,450 | 15,049 | 10,152 |
| Net interest income after provision for credit losses | **130,226** | 127,313 | 133,986 | 118,736 | 119,338 |
| Securities gains | **3,329** | 1,745 | 565 | 1,457 | 6,825 |
| Other operating income | **36,895** | 31,938 | 33,660 | 27,929 | 20,599 |
| Merger and related charges | **-0-** | -0- | -0- | 7,915 | -0- |
| Other operating expenses | **105,007** | 99,461 | 95,569 | 93,980 | 89,885 |
| Income before taxes and extra-ordinary items | **65,443** | 61,535 | 72,642 | 46,227 | 56,877 |
| Applicable income taxes | **15,254** | 14,289 | 19,612 | 12,229 | 17,338 |
| Net income before extraordinary items | **50,189** | 47,246 | 53,030 | 33,998 | 39,539 |
| Extraordinary items (less applicable taxes of $336) | **-0-** | -0- | -0- | (624) | -0- |
| Net income | **$ 50,189** | $ 47,246 | $ 53,030 | $ 33,374 | $ 39,539 |
| **Per Share Data (a)** | | | | | |
| Net income before extraordinary items | **$ 0.87** | $ 0.82 | $ 0.88 | $ 0.55 | $ 0.64 |
| Extraordinary items | **0.00** | 0.00 | 0.00 | (0.01) | 0.00 |
| Net income | **$ 0.87** | $ 0.82 | $ 0.88 | $ 0.54 | $ 0.64 |
| Dividends declared | **$ 0.585** | $ 0.565 | $ 0.515 | $ 0.445 | $ 0.410 |
| Average shares outstanding | **57,885,478** | 57,558,929 | 60,333,092 | 61,333,572 | 61,671,898 |
| **Per Share Data Assuming Dilution (a)** | | | | | |
| Net income before extraordinary items | **$ 0.86** | $ 0.82 | $ 0.88 | $ 0.55 | $ 0.64 |
| Extraordinary items | **0.00** | 0.00 | 0.00 | (0.01) | 0.00 |
| Net income | **$ 0.86** | $ 0.82 | $ 0.88 | $ 0.54 | $ 0.64 |
| Dividends declared | **$ 0.585** | $ 0.565 | $ 0.515 | $ 0.445 | $ 0.410 |
| Average shares outstanding | **58,118,057** | 57,618,671 | 60,569,322 | 61,666,026 | 61,845,674 |
| **At End of Period** | | | | | |
| Total assets | **$ 4,583,530** | $ 4,372,312 | $ 4,340,846 | $ 4,096,789 | $ 3,668,557 |
| Investment securities | **1,762,408** | 1,636,337 | 1,592,389 | 1,525,332 | 1,015,798 |
| Loans and leases, net of unearned income | **2,567,934** | 2,490,827 | 2,500,059 | 2,374,850 | 2,436,337 |
| Allowance for credit losses | **34,157** | 33,601 | 33,539 | 32,304 | 25,932 |
| Deposits | **3,093,150** | 3,064,146 | 2,948,829 | 2,931,131 | 2,884,343 |
| Company obligated mandatorily redeemable capital securities of subsidiary trust | **35,000** | 35,000 | 35,000 | -0- | -0- |
| Other long-term debt | **629,220** | 621,855 | 603,355 | 630,850 | 193,054 |
| Shareholders' equity | **370,066** | 334,156 | 286,683 | 355,405 | 354,323 |
| **Key Ratios** | | | | | |
| Return on average assets | **1.11%** | 1.10% | 1.25% | 0.85% | 1.15% |
| Return on average equity | **13.85%** | 15.65% | 15.44% | 9.13% | 11.31% |
| Net loans to deposit ratio | **81.92%** | 80.19% | 83.64% | 79.92% | 83.57% |
| Dividends per share as a percent of net income per share | **67.24%** | 68.90% | 58.52% | 82.41% | 64.06% |
| Average equity to average assets ratio | **8.01%** | 7.00% | 8.10% | 9.28% | 10.16% |

*(a) Where applicable, 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, 2001, 2000 and 1999 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. 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.

Financial statement amounts in prior periods have been reclassified to conform to the presentation format used in 2001. The reclassifications had no effect on the Corporation's financial condition or results of operations.

## Results of Operations

Net income for 2001 was $50.2 million, reflecting an increase of $3.0 million from 2000 results of $47.2 million and compared to $53.0 million reported in 1999.

The increase in net income for 2001 resulted primarily from increases in net interest income, gains on sale of assets and insurance commissions of $4.4 million, $1.8 million and $1.2 million, respectively compared to 2000 levels. Gains on the sale of assets includes securities gains of $3.3 million and $1.7 million in 2001 and 2000, respectively as well as $999 thousand gain on the sale of a branch and a block of mortgages in 2001. The decrease in net income for 2000 was primarily the result of gains on sale of loans which were realized during 1999.

Basic earnings per share was $0.87 for 2001 compared to $0.82 for 2000, while diluted earnings per share was $0.86 for 2001 compared to $0.82 for 2000. Basic earnings per share and diluted earnings per share were $0.88 for 1999. Basic earnings per share, excluding gains on sale of assets, was $0.82 for 2001 compared to $0.79 for 2000 representing an increase of 3.8%. Return on average assets was 1.11% and return on average equity was 13.85% during 2001 compared to 1.10% and 15.65%, respectively for 2000. Return on average assets was 1.25% during 1999 while return on average equity was 15.44%.

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

| | 2001 vs. 2000 | 2000 vs. 1999 |
|---|---|---|
| Net income per share, prior year | $ 0.82 | $ 0.88 |
| Increase (decrease) from changes in: | | |
| Net interest income | 0.06 | 0.01 |
| Provision for credit losses | (0.02) | (0.02) |
| Security transactions | 0.03 | 0.02 |
| Insurance commissions | 0.02 | 0.01 |
| Income from bank owned life insurance | 0.02 | 0.02 |
| Other income | 0.04 | (0.04) |
| Salaries and employee benefits | (0.03) | (0.09) |
| Occupancy and equipment costs | (0.01) | (0.02) |
| Other expenses | (0.04) | (0.03) |
| Provision for income taxes | (0.02) | 0.08 |
| Net income per share | $ 0.87 | $ 0.82 |

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 $141.7 million in 2001 compared to $137.3 million in 2000 and $143.4 million in 1999. 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, 2001.

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

| | **2001** | | | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | **$ 1,842** | **$ 70** | **3.81%** | $ 1,220 | $ 82 | 6.71% | $ 1,844 | $ 121 | 6.56% |
| Investment securities | **1,724,725** | **106,156** | **6.45** | 1,572,290 | 103,018 | 6.88 | 1,608,467 | 100,853 | 6.59 |
| Federal funds sold | **9,521** | **492** | **5.17** | 3,821 | 234 | 6.12 | 2,097 | 105 | 5.01 |
| Loans, net of unearned income (b) (c) | **2,548,596** | **202,173** | **8.11** | 2,503,036 | 208,548 | 8.50 | 2,408,450 | 195,010 | 8.21 |
| Total interest-earning assets | **4,284,684** | **308,891** | **7.43** | 4,080,367 | 311,882 | 7.87 | 4,020,858 | 296,089 | 7.56 |
| Noninterest-earning assets: | | | | | | | | | |
| Cash | **72,806** | | | 74,178 | | | 80,716 | | |
| Allowance for credit losses | **(34,078)** | | | (34,296) | | | (33,757) | | |
| Other assets | **198,051** | | | 191,534 | | | 174,063 | | |
| Total noninterest-earning assets | **236,779** | | | 231,416 | | | 221,022 | | |
| Total Assets | **$ 4,521,463** | | | $ 4,311,783 | | | $ 4,241,880 | | |
| **Liabilities and Shareholders' Equity** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Interest-bearing demand deposits (d) | **$ 388,495** | **$ 7,039** | **1.81%** | $ 386,149 | $ 9,593 | 2.48% | $ 386,124 | $ 8,375 | 2.17% |
| Savings deposits (d) | **684,298** | **16,061** | **2.35** | 652,647 | 17,027 | 2.61 | 712,637 | 17,769 | 2.49 |
| Time deposits | **1,728,056** | **95,065** | **5.50** | 1,585,694 | 88,887 | 5.61 | 1,499,857 | 77,187 | 5.15 |
| Short-term borrowings | **300,173** | **11,227** | **3.74** | 371,286 | 22,218 | 5.98 | 279,269 | 13,832 | 4.95 |
| Long-term debt | **663,063** | **37,778** | **5.70** | 632,837 | 36,814 | 5.82 | 643,746 | 35,490 | 5.51 |
| Total interest-bearing liabilities | **3,764,085** | **167,170** | **4.44** | 3,628,613 | 174,539 | 4.81 | 3,521,633 | 152,653 | 4.33 |
| Noninterest-bearing liabilities and capital: | | | | | | | | | |
| Noninterest-bearing demand deposits (d) | **368,983** | | | 349,259 | | | 345,311 | | |
| Other liabilities | **26,008** | | | 31,971 | | | 31,439 | | |
| Shareholders' equity | **362,387** | | | 301,940 | | | 343,497 | | |
| Total noninterest-bearing funding sources | **757,378** | | | 683,170 | | | 720,247 | | |
| Total Liabilities and Shareholders' Equity | **$ 4,521,463** | | | $ 4,311,783 | | | $ 4,241,880 | | |
| Net Interest Income and Net Yield on Interest-earning Assets | | **$ 141,721** | **3.53%** | | $137,343 | 3.59% | | $143,436 | 3.76% |

*(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 decreased over 2000 levels primarily as a result of rate decreases during 2001 which were partially offset by volume increases. Asset yields, on a tax-equivalent basis, decreased 44 basis points (0.44%) during 2001 to 7.43% from 7.87% reported in 2000 and compared to 7.56% reported in 1999. The cost of funds for 2001 decreased 37 basis points (0.37%) over 2000 costs of 4.81% and compared to costs of 4.33% for 1999. Average interest earning assets increased $204.3 million or 5.0% while average interest-bearing liabilities increased $135.5 million or 3.7% for 2001 compared to 2000 averages.

Interest and fees on loans decreased $6.4 million for 2001 over 2000 levels, primarily as a result of rate decreases for commercial loans and revolving credit loans which were partially offset by increases due to volume for commercial loans. Average loans for 2001 increased $45.6 million

compared to 2000 averages and included increases in commercial loans and municipal loans which were partially offset by decreases in average consumer loans. The Corporation continued to focus lending activities on variable rate commercial loans to counter-balance the interest rate risk inherent in fixed rate consumer lending during the current period of historically low interest rates. Enhanced marketing strategies continue to enable the Corporation to capitalize on lending opportunities with small to mid-sized commercial customers, including Small Business Administration ("SBA") loans generated through the Corporation's preferred lender status. The Corporation has been successful in competing with larger financial institutions for small business customers becoming one of the top small business lenders in Pennsylvania during 2001.

Interest and fees on loans reflected decreases due to rate of $10.2 million during 2001 as loan yields decreased 39 basis points (0.39%) during 2001 to 8.11% from 8.50% reported for 2000 and compared to 8.21% during 1999. Time and demand (primarily commercial) loan yields decreased 93 basis points (0.93%) for the 2001 period while yields on home equity and personal credit lines decreased 166 basis points (1.66%) and 170 basis points (1.70%), respectively compared to 2000 yields, reflecting a decrease in general interest rates.

Interest income on investments increased $3.1 million for 2001 compared to 2000, as volume increases during 2001 were only partially offset by rate decreases. Volume increases which accounted for the increase in interest income for U.S. government agency securities, corporate bonds and asset backed securities were $1.9 million, $7.6 million and $1.8 million, respectively for the 2001 period. Yields on investments for 2001 were 6.45% compared to 6.88% for 2000 and 6.59% for 1999. Decreases in interest income due to rate for U.S. government agency securities were $5.0 million during 2001 as yields on U.S. government agency securities decreased 45 basis points (0.45%) compared to 2000 yields. Prepayment speeds of mortgage backed securities ("MBS") which had slowed during 1999 as interest rates rose, began to accelerate at the end of 2000 and into 2001 as interest rates began to decline. 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 MBS 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 increased $2.7 million for 2001 compared to 2000 as increases due to volume of $8.9 million were partially offset by decreases due to rate of $6.2 million over 2000 levels. Average time deposits increased $142.4 million for 2001 compared to 2000 averages, resulting in an increase in interest expense due to volume of $8.0 million. Additional increases in interest expense due to volume during 2001 also occurred for money market deposit accounts and savings accounts.

The cost of interest-bearing demand deposits for 2001 decreased by 67 basis points (0.67%) compared to 2000 costs of 2.48%, resulting in a decrease in interest expense due to rate of $2.6 million. Interest expense on total savings deposits and time deposits for 2001 also reflected decreases due to rate of $1.8 million for both savings deposits and time deposits as deposit costs for these categories decreased 26 basis points (0.26%) and 11 basis points (0.11%), respectively for 2001 compared to 2000.

Interest expense on short-term borrowings decreased $11.0 million during 2001 as a result of volume decreases of $4.3 million and rate decreases of $6.7 million compared to 2000. Average short-term borrowings decreased $71.1 million for 2001 over 2000 averages while the cost of short-term borrowings decreased 224 basis points (2.24%) compared to 2000 costs. Interest on repurchase agreements decreased $7.9 million for the 2001 period as average balances decreased $60.9 million and costs decreased 197 basis points (1.97%) compared to the corresponding period of 2000.

Interest expense on long-term debt increased $964 thousand for 2001 compared to the 2000 period as increases due to volume of $1.8 million were partially offset by decreases due to rate of $794 thousand. Average long-term debt for 2001 increased $30.2 million compared to 2000 averages as maturities were extended for short-term borrowings from the Federal Home Loan Bank, to take advantage of lower interest rates. Long-term debt also reflected an increase for 2000 compared to 1999 levels, primarily due to funding of the repurchase of 3.8 million shares of the Corporation's common stock through a "modified Dutch Auction" tender offer during 1999. 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 borrowings in the amount of $35 million were issued during the third quarter of 1999 bearing an interest rate of 9.50% and maturing in thirty years, consequently interest expense on capital securities for 2000 was $3.3 million compared to $1.0 million for 1999. The parent company also incurred a $16 million bank loan during 1999, primarily to fund the remaining cost of the

stock repurchase. (See NOTE 16 to the financial statements for a description of the Company obligated mandatorily redeemable capital securities of subsidiary trust.)

Net interest margin (net interest income, on a tax-equivalent basis as a percentage of average earning assets), was 3.53% during 2001 compared to 3.59% in 2000 and 3.76% in 1999. Although net interest margin decreased for the full year of 2001, net interest margin for the fourth quarter of 2001 improved to 3.66%, up 20 basis points (0.20%) from the fourth quarter of 2000, primarily because of the ability to reprice liabilities in the declining interest rate environment. 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)*

| | **2001 Change from 2000** | | | 2000 Change from 1999 | | |
|---|---|---|---|---|---|---|
| | **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 | **$ (12)** | **$ 42** | **$ (54)** | $ (39) | $ (41) | $ 2 |
| Securities | **3,138** | **10,491** | **(7,353)** | 2,165 | (2,383) | 4,548 |
| Federal funds sold | **258** | **349** | **(91)** | 129 | 86 | 43 |
| Loans | **(6,375)** | **3,871** | **(10,246)** | 13,538 | 7,765 | 5,773 |
| Total interest income | **(2,991)** | **14,753** | **(17,744)** | 15,793 | 5,427 | 10,366 |
| Interest-bearing liabilities: | | | | | | |
| Deposits | **2,658** | **8,865** | **(6,207)** | 12,176 | 2,922 | 9,254 |
| Short-term borrowings | **(10,991)** | **(4,256)** | **(6,735)** | 8,386 | 4,558 | 3,828 |
| Long-term debt | **964** | **1,758** | **(794)** | 1,324 | (601) | 1,925 |
| Total interest expense | **(7,369)** | **6,367** | **(13,736)** | 21,886 | 6,879 | 15,007 |
| Net interest income | **$ 4,378** | **$ 8,386** | **$ (4,008)** | $ (6,093) | $ (1,452) | $ (4,641) |

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 $11.5 million in 2001 compared to $10.0 million in 2000 and $9.5 million in 1999. The allowance for credit losses was $34.2 million at December 31, 2001, for a ratio of 1.33% of actual loans outstanding. The ratio of the allowance for credit losses to total loans outstanding as of December 31, 2001 has decreased slightly from the 1.35% reported as of December 31, 2000. Net charge-offs for 2001 reflected increases in net charge-offs of residential mortgages of $937 thousand and commercial loans secured by real estate of $2.2 million which were partially offset by decreases in net charge-offs of loans to individuals and commercial loans not secured by real estate of $1.3 million and $454 thousand, respectively. Net charge-offs against the allowance for credit losses were $10.9 million, or 0.43% of average total loans in 2001. This compared to net charge-offs of $10.0 million in 2000 and $8.2 million in 1999. Net charge-offs were 0.40% and 0.34% of average total loans during 2000 and 1999, 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, 2001 (Dollar Amounts in Thousands):

**Summary of Loan Loss Experience**

| | **2001** | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Loans outstanding at end of year | **$ 2,567,934** | $ 2,490,827 | $ 2,500,059 | $ 2,374,850 | $ 2,436,337 |
| Average loans outstanding | **$ 2,548,596** | $ 2,503,036 | $ 2,408,450 | $ 2,439,436 | $ 2,330,657 |
| Allowance for credit losses: | | | | | |
| Balance, beginning of year | **$ 33,601** | $ 33,539 | $ 32,304 | $ 25,932 | $ 25,234 |
| Loans charged off: | | | | | |
| Commercial, financial and agricultural | **3,297** | 4,335 | 1,821 | 1,513 | 1,473 |
| Loans to individuals | **4,199** | 5,521 | 6,126 | 7,293 | 8,022 |
| Real estate-construction | **-0-** | -0- | -0- | -0- | -0- |
| Real estate-commercial | **2,300** | 130 | 427 | 812 | 664 |
| Real estate-residential | **1,818** | 874 | 1,035 | 690 | 819 |
| Lease financing receivables | **606** | 407 | 187 | 319 | -0- |
| Total loans charged off | **12,220** | 11,267 | 9,596 | 10,627 | 10,978 |
| Recoveries of loans previously charged off: | | | | | |
| Commercial, financial and agricultural | **456** | 406 | 290 | 462 | 223 |
| Loans to individuals | **757** | 826 | 1,057 | 1,328 | 1,218 |
| Real estate-construction | **-0-** | -0- | -0- | -0- | -0- |
| Real estate-commercial | **-0-** | -0- | -0- | 70 | 13 |
| Real estate-residential | **49** | 42 | 33 | 87 | 57 |
| Lease financing receivables | **19** | 25 | 1 | 3 | 13 |
| Total recoveries | **1,281** | 1,299 | 1,381 | 1,950 | 1,524 |
| Net loans charged off | **10,939** | 9,968 | 8,215 | 8,677 | 9,454 |
| Provision charged to expense | **11,495** | 10,030 | 9,450 | 15,049 | 10,152 |
| Balance, end of year | **$ 34,157** | $ 33,601 | $ 33,539 | $ 32,304 | $ 25,932 |
| Ratios: | | | | | |
| Net charge-offs as a percentage of average loans outstanding | **0.43%** | 0.40% | 0.34% | 0.36% | 0.41% |
| Allowance for credit losses as a percentage of average loans outstanding | **1.34%** | 1.34% | 1.39% | 1.32% | 1.11% |

Net securities gains increased $1.6 million during 2001 from $1.7 million reported in 2000 and compared to $565 thousand in 1999. The securities gains during 2001 resulted primarily from the sales of fixed rate corporate bonds classified as "available for sale" and Pennsylvania bank stocks with book values of $37.4 million and $12.7 million, respectively. The securities gains during 2000 resulted primarily from the sale of Pennsylvania bank stocks with a book value of $19.9 million. 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 security gains of $167 and $317 thousand, respectively.

Trust income was $5.0 million for 2001 compared to $5.6 million for 2000 and $5.5 million for 1999. Trust income for 2001 reflected decreases in income from personal trusts, estates and mutual fund fees as market values declined.

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 Corporation's success in building relationships with commercial customers will also provide fee based affiliates with additional sales opportunities through the "Total Solutions Financial Management" process. This strategy marshals products, services and professional staff from the Corporation's trust, insurance and banking affiliates and unites them into a comprehensive financial services offering.

Service charges on deposits increased $598 thousand for 2001 compared to 2000 and included increases in insufficient funds fees "NSF" and bank club fees. Standardization of service charge routines achieved during conversion of the Corporation's deposit system during 2001 also generated additional fee revenue. The new deposit processing system implemented during the third quarter of 2001 will also facilitate the offering of enhanced deposit products and

services such as lockbox and cash management services, which are expected to increase deposit fees in future periods. Service charges on deposits decreased $83 thousand for 2000 compared to 1999 as the average balances of transaction accounts which generate fee revenue decreased compared to 1999 levels.

Insurance commissions, which have continued to increase since First Commonwealth Insurance Agency's ("FCIA") formation in 1998, increased $1.2 million for 2001 from 2000 commissions of $2.0 million and compared to $1.5 million for 1999. Insurance revenue for 2001 included increases in credit insurance, employee benefits and annuities compared to 2000 levels. As part of the previously discussed "Total Solutions Financial Management" process FCIA will continue to have expanded opportunities to meet the insurance needs of commercial customers. In addition, the Corporation has developed "FOCUS", a financial planning tool designed to help consumers prioritize and assess their financial needs. The "FOCUS" concept results in a systematic approach covering a wide range of personal financial goals, including personal budgeting, funding for an emergency, using credit wisely, building financial security and estate planning as well as protecting what is important through appropriate insurance coverage.

Income from bank owned life insurance was $4.6 million for 2001 compared to $3.4 million for 2000 and $2.1 million for 1999. The 2001 period included an additional investment in bank owned life insurance of $15.0 million compared to 2000 levels. The 2000 period included an increase in income from bank owned life insurance of $1.3 million compared to 1999, resulting primarily from claim income and the impact of an additional $15.0 million investment during 2000.

Other income for 2001 was $12.9 million, representing an increase of $2.4 million over 2000 income of $10.5 million and compared to $13.8 million for 1999. 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 one of its branches during 2001. The premium on the sale of $10.4 million of deposits from the branch resulted in a gain of $767 thousand. Termination of the Southwest Bank pension plan during 2001 resulted in a gain of $277 thousand (net of applicable excise taxes), which is included in other income. Other income for the 2001 period also reflected increases in bank club income, debit card interchange and merchant discount of $207 thousand, $173 thousand and $222 thousand, respectively, compared to 2000 revenues. Mutual fund sales also resulted in an increase in other income for 2001 of $336 thousand. Other income for 1999 included gains on the sale of loans resulting primarily from the sale of $42.2 million of residential mortgage loans during the first quarter of 1999 and the sale of $20.4 million of retail credit card loans during the second quarter of 1999 which generated gains of $890 thousand and $4.0 million, respectively.

Total other operating expenses increased $5.5 million to $105.0 million for 2001 compared to $99.5 million and $95.6 million for 2000 and 1999, respectively. Total noninterest expense as a percent of average assets was 2.32% for the 2001 period compared to 2.31% for 2000. Employee costs were $54.5 million in 2001, representing 1.21% of average assets compared to $52.5 million and 1.22% of average assets for 2000. Employee costs for 1999 were $49.8 million or 1.17% of average assets. Employee benefit costs increased $331 thousand for 2001 compared to the 2000 period and included increases in 401(k) plan expenses and employee stock ownership plan "ESOP" expenses which were partially offset by decreases in hospitalization costs. The 2000 period included decreases in employee benefit costs for pension and postretirement benefits totaling $504 thousand at Southwest as a result of plan curtailment. The Corporation continues to develop quality employee benefit plan enhancements while effectively managing costs.

Net occupancy expense has remained stable over several years at $6.5 million for 2001 and 1999 and $6.6 million for 2000 as increases in insurance and utility costs have been offset by decreases in building depreciation, repairs and maintenance. Furniture and equipment expenses of $9.1 million for 2001 reflected increases of $896 thousand over 2000 levels, primarily as a result of increases for depreciation on computer software and software maintenance. The 2000 period also reflected increases in computer software depreciation and maintenance, as well as increases in furniture and equipment depreciation and repairs compared to 1999. Computer software depreciation and maintenance cost increases were primarily related to the replacement of software utilized by Corporation's data processing subsidiary to process loan and deposit accounts. Software depreciation is also expected to increase for 2002 as a full year of depreciation is included for systems placed in service during the third and fourth quarters of 2001. The new application software will enable the subsidiary banks to provide customers with enhanced products and services, including internet banking. Technology continues to have a great impact on financial services companies and their ability to compete in the marketplace. The Corporation is committed to providing banking, trust and insurance services through traditional branch and telephone channels in the markets we serve, but is also committed to meeting the changing needs of our customers.

Outside data processing expenses were $3.3 million for 2001 compared to $3.3 million for 2000 and $3.4 million for 1999. 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. This cost is expected to be reduced in 2002 as the benefits of Southwest Bank being converted from an outsourced environment to our internal systems is realized. Pennsylvania shares tax expense of $3.8 million for 2001 reflected an increase of $330 thousand over the $3.5 million reported for each of the two previous years.

Other operating expenses for 2001 were $27.8 million, an increase of $2.4 million over the $25.4 million reported for 2000 and compared to $24.6 million for 1999. The 2001 period included increases in filing and recording fees, legal fees, other professional fees and telephone expenses of $165 thousand, $216 thousand, $666 thousand and $352 thousand, respectively, compared to 2000 levels. The 2001 period also included increases in losses on sale of leased vehicles as the used auto market continues to be weak compared to expected residual values. Customer disclosures, required as a result of new privacy legislation and changes in customer loan and deposit accounts due to standardization during 2001 system conversions, caused increases for postage and printing costs for 2001. The Corporation also continues to support the communities in which we serve, resulting in additional charitable contributions for 2001. The 2001 period included decreases in insurance expense, Pennsylvania use tax, promotions and deferred loan origination costs compared to 2000 levels.

Included in other operating expense increases for 2000 compared to 1999 were increases in collection and repossession expenses as accelerated collection efforts attempted to reduce nonperforming loan levels and minimize risk of loss in future periods. FDIC expenses increased $180 thousand during 2000, primarily as a result of rate changes implemented when the FDIC Bank Insurance Fund and Savings and Loan Insurance Fund rates were standardized. Other operating expenses for 2000 also included increases in advertising and promotions, express freight charges, charge card interchange and checkbook printing expenses, which were partially offset by decreases in other professional fees, postage and printing costs compared to 1999 costs.

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.

Income tax expense was $15.3 million during 2001 representing an increase of $965 thousand over the 2000 amount of $14.3 million and compared to $19.6 million in 1999. The Corporation's effective tax rate was 23.3% for 2001 compared to 23.2% for 2000 and 27.0% for 1999. The Corporation's effective tax rate continues to be favorably impacted by tax free income from certain loans, investments and bank owned life insurance.

### 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. 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.

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. Deposits increased $29.0 million in 2001 and included increases in noninterest-bearing deposits and savings deposits which were partially offset by decreases in time deposits. Non-core deposits, which are time deposits in denominations of $100 thousand or more represented 16.08% of total deposits at December 31, 2001, up from 14.86% of total deposits at December 31, 2000. Non-core deposits increased by $41.9 million in 2001 and $97.1 million in 2000 due in part to an increase in public funds. The increase in non-core deposits during 2000 also included the issuance of brokered time deposits in the amount of $26.1 million.

Although the Corporation's primary source of funds remains traditional deposits from within the communities served by its banking subsidiaries, future sources of deposits utilized could include the use of brokered time deposits offered outside the Corporation's traditional market area. Time deposits of $100 thousand or more at December 31, 2001, 2000 and 1999 had remaining maturities as follows:

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

| | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Percent** | Amount | Percent | Amount | Percent |
| Remaining Maturity: | | | | | | |
| 3 months or less | **$ 133,017** | **27%** | $ 358,112 | 79% | $ 273,376 | 76% |
| Over 3 months through 6 months | **57,222** | **11** | 36,941 | 8 | 13,372 | 4 |
| Over 6 months through 12 months | **89,436** | **18** | 19,241 | 4 | 14,503 | 4 |
| Over 12 months | **217,643** | **44** | 41,088 | 9 | 57,010 | 16 |
| Total | **$ 497,318** | **100%** | $ 455,382 | 100% | $ 358,261 | 100% |

Net loans increased $76.6 million during 2001 as commercial loans increased by $134.1 million and loans to individuals increased by $23.4 million compared to year-end 2000. The 2001 period reflected decreases of $83.1 million in residential real estate loans, due in part to the sale of $12.9 million of 30 year residential mortgage loans with significant prepayment exposure during falling interest rates.

Below is a schedule of loans by classification for the five years ended December 31, 2001:

**Loans by Classification**
*(Dollar Amounts in Thousands)*

| | **2001** | | 2000 | | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Percent** | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Commercial, financial, agricultural and other | **$ 529,300** | **21%** | $ 443,618 | 18% | $ 417,300 | 16% | $ 377,733 | 16% | $ 363,699 | 15% |
| Real estate-construction | **14,727** | **1** | 37,146 | 2 | 41,734 | 2 | 33,097 | 1 | 35,308 | 1 |
| Real estate-commercial | **638,576** | **25** | 560,066 | 22 | 495,789 | 20 | 387,166 | 16 | 384,794 | 16 |
| Real estate-residential | **849,787** | **33** | 932,915 | 37 | 980,506 | 39 | 1,009,903 | 42 | 1,048,405 | 43 |
| Loans to individuals | **473,515** | **18** | 450,154 | 18 | 502,465 | 20 | 517,907 | 22 | 569,742 | 23 |
| Net leases | **63,326** | **2** | 68,975 | 3 | 65,893 | 3 | 56,423 | 3 | 51,245 | 2 |
| Gross loans and leases | **2,569,231** | **100%** | 2,492,874 | 100% | 2,503,687 | 100% | 2,382,229 | 100% | 2,453,193 | 100% |
| Unearned income | **(1,297)** | | (2,047) | | (3,628) | | (7,379) | | (16,856) | |
| Total loans, and leases net of unearned income | **$ 2,567,934** | | $2,490,827 | | $ 2,500,059 | | $2,374,850 | | $2,436,337 | |

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, 2001, securities available for sale had an amortized cost of $1,456 million and an approximate fair value of $1,469 million. Gross unrealized gains were $19.6 million and gross unrealized losses were $6.2 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, 2001.

**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 | $ 10,032 | $ 3,031 | $ - 0- | $ 13,063 | 6.22% |
| After 1 but within 5 years | 25,417 | 14,595 | 22,200 | 62,212 | 6.47 |
| After 5 but within 10 years | 29,098 | 23,923 | 275 | 53,296 | 6.66 |
| After 10 years | 99,138 | 65,581 | - 0- | 164,719 | 6.17 |
| Total | $ 163,685 | $ 107,130 | $ 22,475 | $ 293,290 | 6.33% |

**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 | $ 11,111 | $ 5,588 | $ 100 | $ 16,799 | 3.89% |
| After 1 but within 5 years | 143,738 | 8,166 | 134,431 | 286,335 | 5.73 |
| After 5 but within 10 years | 99,523 | 10,897 | 15,000 | 125,420 | 5.78 |
| Over 10 years | 712,815 | 78,841 | 235,506 | 1,027,162 | 6.36 |
| Total | $ 967,187 | $ 103,492 | $ 385,037 | $ 1,455,716 | 6.16% |

## Interest Sensitivity

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.

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, N.O.W. 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, 2001 and 2000 (Dollar Amounts in Thousands):

| | **2001** | | | |
|---|---|---|---|---|
| | **0-90 Days** | **91-180 Days** | **181-365 Days** | **Cumulative 0-365 Days** |
| Loans | **$ 839,279** | **$ 155,276** | **$ 276,760** | **$ 1,271,315** |
| Investments | **154,327** | **90,890** | **180,001** | **425,218** |
| Other interest-earning assets | **4,250** | **-0-** | **-0-** | **4,250** |
| Total interest-sensitive assets | **997,856** | **246,166** | **456,761** | **1,700,783** |
| Certificates of deposits | **329,825** | **284,518** | **407,188** | **1,021,531** |
| Other deposits | **1,090,160** | **-0-** | **-0-** | **1,090,160** |
| Borrowings | **430,189** | **350** | **750** | **431,289** |
| Total interest-sensitive liabilities | **1,850,174** | **284,868** | **407,938** | **2,542,980** |
| GAP | **$ (852,318)** | **$ (38,702)** | **$ 48,823** | **$ (842,197)** |
| ISA/ISL | **0.54** | **0.86** | **1.12** | **0.67** |
| Gap/Total assets | **18.60%** | **0.84%** | **1.07%** | **18.37%** |

| | 2000 | | | |
|---|---|---|---|---|
| | 0-90 Days | 91-180 Days | 181-365 Days | Cumulative 0-365 Days |
| Loans | $ 621,536 | $ 130,374 | $ 244,605 | $ 996,515 |
| Investments | 130,220 | 47,279 | 105,423 | 282,922 |
| Other interest-earning assets | 11,552 | -0- | -0- | 11,552 |
| Total interest-sensitive assets | 763,308 | 177,653 | 350,028 | 1,290,989 |
| Certificates of deposits | 274,963 | 264,805 | 470,828 | 1,010,596 |
| Other deposits | 1,018,205 | -0- | -0- | 1,018,205 |
| Borrowings | 274,673 | 884 | 457 | 276,014 |
| Total interest-sensitive liabilities | 1,567,841 | 265,689 | 471,285 | 2,304,815 |
| GAP | $ (804,533) | $ (88,036) | $ (121,257) | $ (1,013,826) |
| ISA/ISL | 0.49 | 0.67 | 0.74 | 0.56 |
| Gap/Total assets | 18.40% | 2.01% | 2.77% | 23.19% |

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, 2001, 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 and the Corporation's position would remain well within current policy guidelines.

Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans and before unearned income at December 31, 2001 were as follows (Dollar Amounts in Thousands):

| | Within One Year | One to 5 Years | After 5 Years | Total |
|---|---|---|---|---|
| Commercial and industrial | $ 252,739 | $ 62,121 | $ 32,204 | $ 347,064 |
| Financial institutions | 235 | -0- | -0- | 235 |
| Real estate-construction | 11,945 | 440 | 2,342 | 14,727 |
| Real estate-commercial | 408,820 | 33,083 | 196,673 | 638,576 |
| Other | 49,908 | 11,149 | 120,944 | 182,001 |
| Totals | $ 723,647 | $ 106,793 | $ 352,163 | $1,182,603 |
| | | | | |
| Loans at fixed interest rates | | 89,715 | 222,095 | |
| Loans at variable interest rates | | 17,078 | 130,068 | |
| Totals | | $ 106,793 | $ 352,163 | |

## 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. Early in 2000, the Corporation initiated an additional level of approval for credit relationships between $500 thousand and $1.0 million. This procedure requires approval of those credits by a committee consisting of senior lenders of the Corporation.

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 and the Corporation's Board of Directors review the adequacy of the allowance on a quarterly basis to ensure that the provision for credit losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses. 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, a formula allowance based on historical trends, an additional allowance for special circumstances and an unallocated allowance. 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, 2001.

Loans on the primary watch list may also be impaired loans, which are defined as nonaccrual loans or troubled debt restructurings. 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 greater of the eight most recent quarters or the twenty most recent quarters. Historical loss experience percentages are applied to non-classified loans from the primary watch list as well as all other loans and leases which are not on the watch list 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, 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)*

| | **2001** | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Commercial, industrial, financial, agricultural and other | **$ 6,315** | $ 6,263 | $ 6,321 | $ 4,375 | $ 3,726 |
| Real estate-construction | **432** | 643 | 831 | 414 | 415 |
| Real estate-commercial | **9,808** | 9,064 | 7,675 | 5,119 | 4,912 |
| Real estate-residential | **7,379** | 10,211 | 9,928 | 10,319 | 8,595 |
| Loans to individuals | **3,845** | 4,938 | 5,131 | 5,223 | 4,583 |
| Lease financing receivables | **401** | 638 | 586 | 512 | 393 |
| Unallocated | **5,977** | 1,844 | 3,067 | 6,342 | 3,308 |
| Total | **$34,157** | $33,601 | $33,539 | $32,304 | $ 25,932 |
| Allowance as percentage of average total loans | **1.34%** | 1.34% | 1.39% | 1.32% | 1.11% |

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)*

| | **2001** | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Loans on nonaccrual basis | **$22,899** | $10,698 | $12,765 | $ 9,677 | $ 11,387 |
| Past due loans | **17,781** | 22,086 | 15,815 | 15,780 | 13,955 |
| Renegotiated loans | **832** | 2,263 | 62 | 64 | 67 |
| Total nonperforming loans | **$41,512** | $35,047 | $28,642 | $25,521 | $ 25,409 |
| Nonperforming loans as a percentage of total loans | **1.62%** | 1.41% | 1.15% | 1.07% | 1.04% |
| Allowance as percentage of nonperforming loans | **82.28%** | 95.87% | 117.10% | 126.58% | 102.06% |
| Other real estate owned | **$ 1,619** | $ 1,661 | $ 1,707 | $ 2,370 | $ 1,950 |
| Gross income that would have been recorded at original rates | **$ 1,422** | $ 750 | $ 724 | $ 961 | $ 1,017 |
| Interest that was reflected in income | **750** | 333 | 458 | 286 | 146 |
| Net reduction to interest income due to nonaccrual | **$ 672** | $ 417 | $ 266 | $ 675 | $ 871 |

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 2001 increased by $6.5 million over 2000 levels as increases in nonaccrual loans were only partially offset by decreases in past due loans and renegotiated loans. The increase in nonaccrual loans since year-end 2000 is primarily related to two loans. One is a $6.7 million credit that is not past due and carries an 80% guaranty of a U.S. government agency but is experiencing cash flow difficulties and has therefore been placed in nonaccrual status. A resolution of this credit is expected by the end of the second quarter 2002. The second credit is in the amount of $5.9 million and the Corporation is in the process of liquidating the collateral. The Corporation anticipates a final resolution of this credit in the first quarter of 2002 without a significant loss.

Past due loans for the 2001 period decreased $4.3 million compared to the corresponding period of 2000 and included decreases of $3.1 million for commercial loans secured by real estate and $1.7 million for commercial and industrial loans. Past due loans secured by residential real estate and loans to individuals increased $622 thousand and $110 thousand, respectively over the same time period. Nonperforming loans as a percentage of total loans was 1.62% at December 31, 2001 compared to 1.41% at December 31, 2000.

The Corporation's loan portfolio continues to be monitored by senior management to identify potential portfolio risks and detect potential credit deterioration in the early stages. During 2001 the Corporation established a "Watchlist Committee" which includes credit workout officers of the bank and meets bi-weekly to review watchlist credits for workout progress or deterioration. Loan loss adequacy and the status of significant nonperforming credits are monitored on a quarterly basis by a committee made up of senior officers of the bank and parent company. These committees were established to provide additional internal monitoring and analysis in addition to that provided by the credit committees of the banks and parent company. Credit risk is mitigated during the loan origination process through the use of sound underwriting policies and collateral requirements. The Corporation has also initiated an additional level of approval for credit relationships between $500 thousand and $1.0 million. This procedure requires approval of those credits by a committee consisting of senior lenders of the Corporation. Management also attempts to minimize loan losses by analyzing and modifying collection techniques on a periodic basis. Management believes that the allowance for credit losses and nonperforming loans remained safely within acceptable levels.

**Capital Resources**

Equity capital increased $35.9 million in 2001 to $370.1 million. Dividends declared decreased equity by $34.1 million during 2001, an increase over dividends for the 2000 period. The retained net income of $16.1 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 $1.2 million. The market value adjustment to securities available for sale increased equity by $16.5 million during 2001. Amounts paid to fund the discount on reinvested dividends reduced equity by $612 thousand. Proceeds from the reissuance of treasury shares to provide for stock options exercised increased equity by $2.5 million during 2001, while the tax benefit related to the stock options, increased equity by $269 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 25 to the Consolidated Financial Statements for an analysis of regulatory capital guidelines and the Corporation's capital ratios relative to these measurement standards.

**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 analyzing and monitoring 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 13,000. 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 |
|---|---|---|---|
| **2001** | | | |
| First Quarter | $ 11.45 | $ 9.50 | $ 0.145 |
| Second Quarter | $ 15.00 | $ 10.30 | $ 0.145 |
| Third Quarter | $ 14.35 | $ 10.80 | $ 0.145 |
| Fourth Quarter | $ 13.00 | $ 11.10 | $ 0.150 |

| Period | High Sale | Low Sale | Cash Dividends Per Share |
|---|---|---|---|
| **2000** | | | |
| First Quarter | $ 12.000 | $ 8.625 | $ 0.140 |
| Second Quarter | $ 11.625 | $ 9.063 | $ 0.140 |
| Third Quarter | $ 10.188 | $ 8.750 | $ 0.140 |
| Fourth Quarter | $ 10.875 | $ 8.875 | $ 0.145 |

**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 22, 2002 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
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://www.stockbny.com

***Send Certificates For Transfers and Address Changes To:***
Receive and Deliver Department
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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