Successful Strategies

First Commonwealth®

Annual Report 2003

First Commonwealth has a culture of being community-oriented. Two awards—the Golden Tower Award and the Spirit of Community Service Award—were created to recognize examples of exceptional volunteerism among First Commonwealth employees. Golden Tower recipients receive personalized crystal Golden Tower awards and $1,000 is donated to the charity of their choice. Spirit of Community Service Award recipients receive certificates and $500 is donated to the charity of their choice. The First Commonwealth Annual Report 2003 is dedicated to the distinguished service of these individuals, some of whom are highlighted in the report. Congratulations to all of the 2003 award winners.

Golden Tower Awards

Month	Recipient
January	*Suzanne Huey*
February	*Linda Bellich*
March	*Barbara Nichols*
April	*Joseph Dell Jr.*
May	*Brook McGinnis*
June	*Lynn Lovell*
July	*Elaine Bonanno*
August	*Susan Spaid*
September	*Janice Demharter*
October	*Suzanne Parks*
November	*Bill Staffen*
December	*Carson Greene Jr.*

Spirit of Community Service Awards

Month	Recipients
January	*Karen Schmidt, Nancy Garman*
February	*Bernadette Mutz, Jane Pedersen*
March	*Ron Golemboski, Carrie Shuttleworth*
April	*Rusty Flynn, Marie List*
May	*Beverly Helsel, Brenda Horner*
June	*Alice Mento, Brenda Thornhill*
July	*Lisa Boone, Patricia Conley*
August	*Cindy Brumbaugh, Linda Malisko*
September	*Terri Plyler, Jennifer Wilhelm*
October	*Karen Simmermon, Valerie Weis*
November	*Karen Holencik, Jean McGarvey*
December	*Sharon Davis, Janet Minor*

First Commonwealth®

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A Message to Shareholders

The year 2003 was one that challenged all financial services companies, including First Commonwealth. The historic low interest rates have continued to compress net interest margins making revenue growth difficult to achieve. Despite the economic challenges, First Commonwealth achieved very successful results for the year.

Net income for 2003 was $53.3 million, which translates into $0.90 basic and diluted earnings per share. Return on assets was 1.12% and return on equity was 12.95% for the year. Total assets increased 15% for the year to $5.2 billion while total nonperforming loans declined 40%. Shareholder value was enhanced with a total return of 29% for the year with a current dividend yield of 4.5%.

First Commonwealth: A successful 2003 and a commitment to improvement in 2004

On December 5, 2003 the acquisition of Pittsburgh Financial, with $373 million in assets, was consummated. This represents an important step to increase our presence in the Pittsburgh market. This step was followed by the announcement on December 12, 2003 that GA Financial Inc., the parent company of Great American Federal, had agreed to join First Commonwealth, adding another $890 million in assets in the Pittsburgh region. Together, these two acquisitions will add nineteen community offices to the newly formed Pittsburgh region, allowing First Commonwealth to more effectively compete in this growing market.

The branding initiative launched in fall 2002 was successfully completed with the installation of new signage at all the community office and affiliate locations. First Commonwealth has become a recognizable brand throughout our markets while maintaining the community orientation and personalized service for which we

are known. First Commonwealth continues to provide comprehensive services in our five core competencies; banking, trust, insurance, financial management, and investments.

In order to recognize the outstanding community service that our employees provide, First Commonwealth instituted two new awards: the Golden Tower Award and the Spirit of Community Service Award. Through this program, a total of thirty-six dedicated employees were recognized during 2003 with donations made on their behalf to local charitable and civic organizations of their choice. First Commonwealth will continue to assist our communities by providing the necessary financial support and, more importantly, the leadership of our people to make these communities better places to live and raise our families. A few of the stories of our Golden Tower Award winners are contained throughout this report.

The First Commonwealth Board of Directors continues to implement policies and practices to remain in complete compliance with all new corporate governance requirements. More details can be found in the 2003 Proxy Statement and on our Web site at www.fcbanking.com. First Commonwealth remains committed to good governance grounded on an independent and dedicated Board that balances the interests of all stakeholders.

I would like to thank all our employees for their dedicated service to First Commonwealth and to their communities. I would also like to thank members of the Board of Directors for their strong and ethical leadership. And I thank all of our shareholders for their continued support and confidence. I also extend a welcome to the many new employees and shareholders who have joined the First Commonwealth family. The accomplishments during 2003 allow us to approach 2004 and beyond with confidence and enthusiasm.

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

Successful Strategies

First Commonwealth: Responding to the needs of its clients

Successful Strategies come from a disciplined planning process that carefully evaluates the current economic climate, understands past and present trends, and analyzes future possibilities. This process identifies the services our clients desire and defines how First Commonwealth can meet those needs. At First Commonwealth, we have transformed annual planning and budgeting into a continuous process with an eighteen month forecast completed every month.

Successful Strategies were implemented in large part through the unified branding program that began in late 2002. Every First Commonwealth affiliate became part of a new single First Commonwealth identity with a common name, logo, colors, signage, and marketing strategy. Though the look of

Joseph Dell Jr.
Senior Vice President for Corporate Lending, Indiana Office

Joe Dell traces his commitment to community service back to his childhood. His parents, says Joe, "raised me to help people. Volunteerism is just an extension of my upbringing." The young Cub Scout who once sold brooms and cushions for the Lions Club and helped his church is now president of the Center for Family Life, a prevention arm of the child welfare system. He also coaches his daughter's softball team and serves on several boards and committees. "Service is a First Commonwealth tradition," Joe says. "We take seriously our responsibility to keep communities strong."

First Commonwealth changed dramatically, every unit responded positively to being part of one unified identity. Most importantly, the focus of First Commonwealth, to build strong communities, remained intact. Every First Commonwealth employee understands and embraces the philosophy that personalized service is a First Commonwealth tradition that transcends corporate identity.

To reinforce its historical commitment to building strong communities, First Commonwealth adopted a program to publicly recognize employees who so generously have given their time and talent to improving their communities. In addition to the awards, First Commonwealth made significant contributions to civic and charitable organizations throughout its seventeen-county market area. Specific contributions were made in the name of the award winning employees to charities of their choice.

Barbara Nichols
Community Financial Manager, Downtown New Castle Office

Barbara Nichols says she screamed when word arrived that she had received the Golden Tower Award. "Luckily," she jokes, "it was after hours." Extremely honored to be recognized for her efforts to improve her community, Barbara believes First Commonwealth is right to encourage its employees to be community servants. She is very involved in marketing and producing her local children's theatre program. In addition, she teaches Sunday school and serves on the boards of the YMCA and the New Castle Playhouse. "I have a good life," she says, "and I have always felt I should give something back to the community."

Extending Our Presence

Another successful strategy for 2003 has been the expansion into new markets, particularly into markets with higher growth potential. This strategy has been advanced through the recent acquisitions in the Pittsburgh market area.

In August 2003, First Commonwealth announced an agreement to acquire Pittsburgh Financial Corporation, a transaction that was consummated on December 5, 2003. Headquartered in Wexford—north of Pittsburgh—Pittsburgh Financial was the holding company of BankPittsburgh with seven community offices and total assets of $373 million. Pittsburgh Financial employees, clients, and communities are now benefiting from the corporate strength and product depth of the financial services of First Commonwealth.

First Commonwealth: Strategically expanding into new markets

On December 12, 2003, First Commonwealth and GA Financial Inc. jointly announced their intention to merge Great American Federal into First Commonwealth Bank and join with the former BankPittsburgh as part of the newly formed Pittsburgh

Brook McGinnis
Vice President, Indiana Office

The father of four children ranging in age from four to ten, Brook McGinnis has long been committed to providing opportunities for area youth. From his college days when he was a "Big Brother" in the Big Brothers and Sisters Program to the present day, he has dedicated his time and talent to making his community a better place for children. He is particularly proud of spearheading the Playtime Park project, Indiana County's first community built playground. Brook also serves as a District Chair for the Boy Scouts of America, a Sunday school teacher, and a member of several other organizations.

region of First Commonwealth Bank. Great American Federal brings twelve full-service community offices and $890 million in assets to this robust new region.

The dedicated employees of these two fine banks will form the nucleus of a dynamic new region with substantial growth opportunities. The shareholders of both organizations will also benefit from being part of a larger organization with substantially increased liquidity.

Throughout 2003, First Commonwealth continued to maximize its community office delivery network by consolidating, closing, and selling offices in slower growth markets. Plans continue to proceed for the development of de novo offices in key locations and the renovation and relocation of other important community offices. The use of our enhanced Internet banking and bill payment sites (WebBank and WebPay) continue to grow dramatically, rounding out a complete client delivery network.

Elaine Bonanno
Community Financial Center Manager II, Vice President, Ebensburg Office

Elaine Bonanno began volunteering to stay involved in her children's lives. She helped with her daughter's cheerleading squad and became a track team booster. This led to her involvement on the Northern Cambria Track/Sports Complex Committee which raised funds to provide a much needed track for student athletes. Happy to help her own children as well as others, Elaine also taught Sunday school. Now, she volunteers for friendship and fun as an officer of the Ebensburg Rotary Club, the Cambria County Industrial Development Corporation, and several other organizations.

A Successful Approach to Corporate Integrity

Robert S. Kaplan, who used First Commonwealth as an excellent example of the Balanced Scorecard Approach, is Professor of Leadership Development at Harvard Business School. His research, teaching, and consulting focus on linking cost and performance management systems to strategy implementation and operational excellence.

Long before the recent spate of corporate corruption, First Commonwealth held itself to the highest standards to ensure corporate integrity and reliability. First Commonwealth always has and will continue to be proactive in fully complying with the requirements of the Sarbanes-Oxley Act of 2002 as well as other requirements as promulgated by the Securities and Exchange Commission and the New York Stock Exchange. First Commonwealth is recognized as a leader in its risk management culture.

First Commonwealth utilizes the Balanced Scorecard, a strategic management and measurement system that enables organizations to clarify their vision and strategy. This strategy is then translated into measurable actions that are portrayed in a strategy map with four perspectives; financial, clients, processes, and employees. The Balanced Scorecard tool is also being utilized by the Board to manage compliance with corporate governance requirements.

First Commonwealth: A recognized leader in risk management

Harvard Business School professor Dr. Robert S. Kaplan, well-known cocreator of the Balanced Scorecard, used First Commonwealth's practices as a model for an educational conference in October 2003. During "Improving Corporate Governance: A Balanced Scorecard Approach," Dr. Kaplan demonstrated how First Commonwealth utilizes the Balanced Scorecard not only to plan for financial success but also to hold its Board members and top executives

Bill Staffen
Vice President, Indiana Office

An avid outdoor sportsman who has never believed in taking his community for granted, Bill Staffen has spent decades helping others. He has been a volunteer firefighter for 33 years and an EMT and board of directors member of Citizens Ambulance Service. In addition, he serves as a Wildlife Conservation Officer for the Pennsylvania Game Commission, a volunteer for the Muscular Dystrophy telethon, and a member of several other civic and charitable organizations. "My philosophy is that you can't just take from your community, you have to give something back," he says.

to the highest standards of competencies and performance. By being clear on objectives and expectations, and by holding executives and Board members accountable, First Commonwealth demonstrates that it has a "well functioning system," Kaplan said "…even realizing cost savings in the regulatory process."

In compliance with one corporate governance requirement, the non-management members of the Board have established a meeting schedule without management's presence. At their first meeting the non-management directors elected David Dahlmann as the Lead Director. Shareholders may communicate in writing directly with the Lead Director at the Corporate Headquarters address. Other information related to First Commonwealth's compliance with corporate governance requirements can be found in the 2003 Proxy Statement and in the corporate area of our Web site at www.fcbanking.com.

2003: A Year of Successful Strategies

At the close of 2003, First Commonwealth stands in an excellent position for increasing its value for shareholders. With a successful new branding strategy, new partners, and a clear and ambitious business strategy, First Commonwealth is poised for another successful year. First Commonwealth remains committed to improvement for all its stakeholders: employees, clients, communities, and shareholders.

Janice Demharter
Office Sales Manager, Sarver Office

Janice Demharter asked that the Highland Meals on Wheels program be the recipient of her Golden Tower Award charitable gift. She served on the steering committee for that organization and believes in its mission to this day. An employee of First Commonwealth for over 35 years, Janice has dedicated time and talent to many charitable and civic organizations over the years, including Habitat for Humanity, the March of Dimes, Relay for Life, the Chamber of Commerce, and others. The Business and Professional Women's Club named Janice their 2003 Woman of the Year.

First Commonwealth Affiliate Presidents

Front row (L to R): *Sue A. McMurdy, Gerard M. Thomchick, Richard R. Applegate*
Back row (L to R): *William A. Mrozowski, Johnston A. Glass, Anthony S. Hewitt*

Richard R. Applegate
President & Chief Executive Officer
First Commonwealth Financial Advisors Inc.
4035 William Flynn Highway
Allison Park, PA 15101
(412) 492-8787

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

Anthony S. Hewitt
President & Chief Executive Officer
First Commonwealth Insurance Agency
First Commonwealth Place
654 Philadelphia Street
Indiana, PA 15701
(724) 349-6056

Sue A. McMurdy
President & Chief Executive Officer
First 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 & Chief Executive Officer
First Commonwealth Professional Resources Inc.
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

Chairman & President
FraMal Holdings Corporation
1105 North Market Street
Wilmington, DE 19899

Board of Directors

Front row (L to R): *E. James Trimarchi, Dale P. Latimer, Laurie Stern Singer, James W. Newill*
Middle row (L to R): *Joseph E. O'Dell, Ray T. Charley, Johnston A. Glass, Alan R. Fairman*
Back row (L to R): *Edward T. Côté, David R. Tomb Jr., Esq., John A. Robertshaw Jr., David S. Dahlmann*

Ray T. Charley
Greensburg
Chief Executive Officer, Thomi Company

Edward T. Côté
Ligonier
Associate, The Wakefield Associates

David S. Dahlmann
Greensburg
Adjunct Professor, Saint Vincent College

Alan R. Fairman
Dubois
Partner, Fairman Drilling Company

Johnston A. Glass
Indiana
Vice Chairman, First Commonwealth Financial Corporation, and President and Chief Executive Officer, First Commonwealth Bank

Dale P. Latimer
New Alexandria
Chairman of the Board and Chief Executive Officer, R & L Development Company

James W. Newill
Highland Beach, FL
Certified Public Accountant, Former President, J.W. Newill Company

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

John A. Robertshaw, Jr.
Greensburg
President, Robertshaw Management, Ltd.

Laurie Stern Singer
Allison Park
President, Allegheny Valley Development Corporation

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

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

Corporate Information

Corporate Executive Offices

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.

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

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

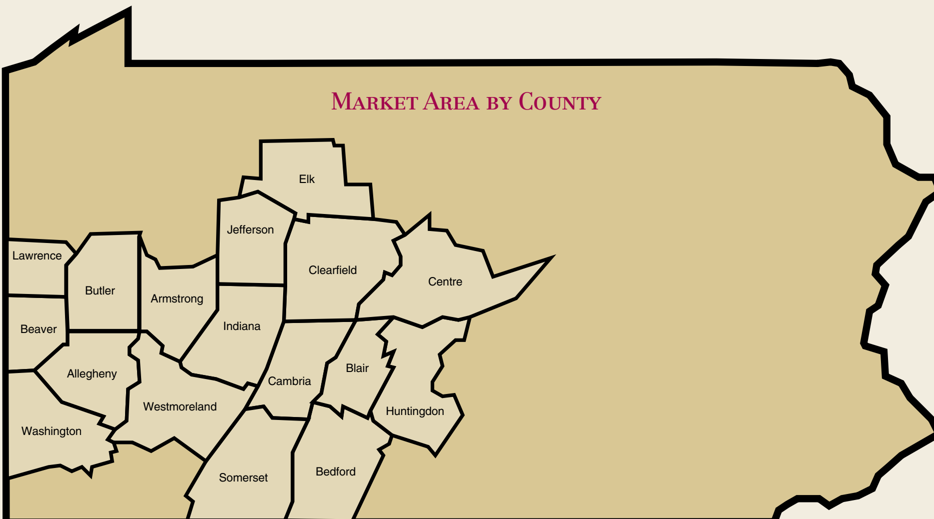
Sue A. McMurdy
Senior Vice President and Chief Information Officer

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 page 60.

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

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
First Commonwealth Financial Corporation

We have audited the accompanying consolidated balance sheet of First Commonwealth Financial Corporation and subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statement of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the years ended December 31, 2002 and 2001, were audited by other auditors whose report dated January 22, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2003 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Pittsburgh, Pennsylvania
January 28, 2004

CONSOLIDATED BALANCE SHEETS

(Dollar Amounts in Thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Cash and due from banks	**$ 82,510**	$ 81,114
Interest-bearing bank deposits	**5,362**	1,973
Securities available for sale, at market	**1,969,176**	1,482,771
Securities held to maturity, at amortized cost, (Market value $109,609 in 2003 and $204,887 in 2002)	**104,254**	197,838
Loans	**2,825,337**	2,609,440
Unearned income	**(455)**	(806)
Allowance for credit losses	**(37,385)**	(34,496)
Net loans	**2,787,497**	2,574,138
Premises and equipment	**46,538**	45,730
Other real estate owned	**1,866**	1,651
Goodwill	**29,854**	8,131
Amortizing intangibles, net	**3,256**	29
Other assets	**158,882**	131,368
Total assets	**$ 5,189,195**	$ 4,524,743
LIABILITIES		
Deposits (all domestic):		
Noninterest-bearing	**$ 408,647**	$ 377,466
Interest-bearing	**2,879,628**	2,666,658
Total deposits	**3,288,275**	3,044,124
Short-term borrowings	**634,127**	469,065
Other liabilities	**41,875**	30,230
Company obligated mandatorily redeemable capital securities of subsidiary trust	**-0-**	35,000
Subordinated debentures	**75,304**	-0-
Other long-term debt	**718,668**	544,934
Total long-term debt	**793,972**	579,934
Total liabilities	**4,758,249**	4,123,353
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value per share, 3,000,000 shares authorized, none issued	**-0-**	-0-
Common stock $1 par value per share, 100,000,000 shares authorized; 63,704,445 shares issued and 60,712,020 shares outstanding in 2003; 62,525,408 shares issued and 58,962,539 shares outstanding in 2002	**63,704**	62,525
Additional paid-in capital	**79,581**	64,885
Retained earnings	**312,261**	296,165
Accumulated other comprehensive income	**15,173**	25,851
Treasury stock (2,992,425 and 3,562,869 shares at December 31, 2003 and 2002, respectively at cost)	**(37,779)**	(44,981)
Unearned ESOP shares	**(1,994)**	(3,055)
Total shareholders' equity	**430,946**	401,390
Total liabilities and shareholders' equity	**$ 5,189,195**	$ 4,524,743

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, 2003	2002	2001
Interest Income			
Interest and fees on loans	**$ 164,441**	$ 179,901	$ 202,173
Interest and dividends on investments:			
Taxable interest	**66,716**	84,137	93,961
Interest exempt from Federal income taxes	**10,561**	9,520	9,534
Dividends	**2,038**	1,973	2,661
Interest on Federal funds sold	**4**	6	492
Interest on bank deposits	**13**	31	70
Total interest income	**243,773**	275,568	308,891
Interest Expense			
Interest on deposits	**60,100**	78,572	118,165
Interest on short-term borrowings	**6,755**	6,029	11,227
Interest on mandatorily redeemable capital securities of subsidiary trust	**-0-**	3,325	3,325
Interest on subordinated debentures	**3,560**	-0-	-0-
Interest on other long-term debt	**29,826**	34,747	34,453
Total interest on long-term debt	**33,386**	38,072	37,778
Total interest expense	**100,241**	122,673	167,170
Net interest income	**143,532**	152,895	141,721
Provision for credit losses	**12,770**	12,223	11,495
Net interest income after provision for credit losses	**130,762**	140,672	130,226
Other Income			
Securities gains	**5,851**	642	3,329
Trust income	**5,142**	5,008	4,995
Service charges on deposits	**13,013**	11,538	11,160
Gain on sale of branches	**3,041**	-0-	777
Insurance commissions	**3,305**	3,631	3,192
Income from bank owned life insurance	**4,342**	4,711	4,618
Merchant discount income	**3,557**	3,573	3,446
Other income	**10,193**	8,992	9,588
Total other income	**48,444**	38,095	41,105
Other Expenses			
Salaries and employee benefits	**61,144**	58,149	54,521
Net occupancy expense	**7,456**	6,750	6,520
Furniture and equipment expense	**10,096**	9,970	9,050
Data processing expense	**2,520**	2,124	3,296
Pennsylvania shares tax expense	**4,301**	3,937	3,825
Intangible amortization	**43**	203	490
Litigation settlement	**(610)**	8,000	-0-
Restructuring charges	**-0-**	6,140	-0-
Other operating expenses	**27,705**	31,057	28,186
Total other expenses	**112,655**	126,330	105,888
Income before income taxes	**66,551**	52,437	65,443
Applicable income taxes	**13,251**	8,911	15,254
Net Income	**$ 53,300**	$ 43,526	$ 50,189
Average Shares Outstanding	**59,002,277**	58,409,614	57,885,478
Average Shares Outstanding Assuming Dilution	**59,387,055**	58,742,018	58,118,057
Per Share Data:			
Basic Earnings Per Share	**$ 0.90**	$ 0.75	$ 0.87
Diluted Earnings Per Share	**$ 0.90**	$ 0.74	$ 0.86

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, 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
Comprehensive income							
Net income	-0-	-0-	43,526	-0-	-0-	-0-	43,526
Other comprehensive income, net of tax:							
Unrealized holding gains (losses) on securities arising during the period	-0-	-0-	-0-	17,542	-0-	-0-	17,542
Less: reclassification adjustment for gains on securities included in net income	-0-	-0-	-0-	(394)	-0-	-0-	(394)
Total other comprehensive income	-0-	-0-	-0-	17,148	-0-	-0-	17,148
Total comprehensive income	-0-	-0-	43,526	17,148	-0-	-0-	60,674
Cash dividends declared	-0-	-0-	(35,580)	-0-	-0-	-0-	(35,580)
Decrease in unearned ESOP shares	-0-	86	-0-	-0-	-0-	1,071	1,157
Discount on dividend reinvestment plan purchases	-0-	(637)	-0-	-0-	-0-	-0-	(637)
Treasury stock reissued	-0-	(964)	-0-	-0-	6,450	-0-	5,486
Tax benefit of stock options	-0-	224	-0-	-0-	-0-	-0-	224
Balance at December 31, 2002	62,525	64,885	296,165	25,851	(44,981)	(3,055)	401,390
Comprehensive income							
Net income	-0-	-0-	53,300	-0-	-0-	-0-	53,300
Other comprehensive income, net of tax:							
Unrealized holding gains (losses) on securities arising during the period	-0-	-0-	-0-	(6,951)	-0-	-0-	(6,951)
Less: reclassification adjustment for gains on securities included in net income	-0-	-0-	-0-	(3,734)	-0-	-0-	(3,734)
Unrealized holding gains on derivatives used in cash flow hedging relationship arising during the period	-0-	-0-	-0-	7	-0-	-0-	7
Total other comprehensive income	-0-	-0-	-0-	(10,678)	-0-	-0-	(10,678)
Total comprehensive income	-0-	-0-	53,300	(10,678)	-0-	-0-	42,622
Cash dividends declared	-0-	-0-	(37,204)	-0-	-0-	-0-	(37,204)
Decrease in unearned ESOP shares	-0-	120	-0-	-0-	-0-	1,061	1,181
Discount on dividend reinvestment plan purchases	-0-	(706)	-0-	-0-	-0-	-0-	(706)
Treasury stock reissued	-0-	(1,076)	-0-	-0-	7,202	-0-	6,126
Tax benefit of stock options	-0-	535	-0-	-0-	-0-	-0-	535
Stock issued for acquisition	1,179	15,823	-0-	-0-	-0-	-0-	17,002
Balance at December 31, 2003	$ 63,704	$ 79,581	$ 312,261	$ 15,173	$ (37,779)	$ (1,994)	$ 430,946

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,		
	2003	2002	2001
Operating Activities			
Net income	**$ 53,300**	$ 43,526	$ 50,189
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	**12,770**	12,223	11,495
Depreciation and amortization	**7,498**	7,360	7,760
Net gains on sales of assets	**(6,483)**	(498)	(3,392)
Net gains on sales of branches	**(3,034)**	-0-	(777)
Income from increase in cash surrender value of bank owned life insurance	**(4,342)**	(4,711)	(4,618)
Stock option tax benefit	**535**	224	269
Changes net of acquisition:			
Decrease in interest receivable	**3,754**	2,860	3,559
Decrease in interest payable	**(1,120)**	(2,280)	(19,387)
Increase (decrease) in income taxes payable	**(843)**	(2,754)	3,491
Change in deferred taxes	**(2,235)**	(594)	(831)
Other-net	**(2,525)**	2,408	(1,165)
Net cash provided by operating activities	**57,275**	57,764	46,593
Investing Activities			
Changes net of acquisition:			
Transactions with securities held to maturity:			
Sales	**-0-**	-0-	-0-
Maturities and redemptions	**93,700**	110,769	133,666
Purchases of investment securities	**-0-**	(15,266)	(28,772)
Transactions with securities available for sale:			
Sales	**62,941**	15,328	85,737
Maturities and redemptions	**954,406**	545,791	497,640
Purchases of investment securities	**(1,414,519)**	(547,799)	(785,610)
Proceeds from sales of loans and other assets	**138,535**	102,225	90,241
Investment in bank owned life insurance	**-0-**	(5,000)	(15,000)
Net decrease (increase) in interest-bearing bank deposits	**4,135**	2,278	(3,823)
Net increase in loans	**(121,400)**	(154,614)	(178,465)
Purchases of premises and equipment	**(5,227)**	(6,382)	(7,886)
Net cash provided (used) by investing activities	**(287,429)**	47,330	(212,272)
Financing Activities			
Changes net of acquisition:			
Proceeds from issuance of other long-term debt	**10,000**	18,200	9,500
Repayments of other long-term debt	**(12,500)**	(101,425)	(974)
Proceeds from issuance of subordinated debentures	**30,929**	-0-	-0-
Discount on dividend reinvestment plan purchases	**(706)**	(637)	(612)
Dividends paid	**(36,630)**	(35,208)	(33,809)
Net increase (decrease) in Federal funds purchased	**(37,500)**	(56,650)	91,425
Net increase in other short-term borrowings	**202,562**	97,980	64,138
Sale of branch and deposits, net of cash received	**(21,288)**	-0-	(9,591)
Reissuance of treasury stock	**5,923**	4,656	2,500
Net increase (decrease) in deposits	**82,901**	(49,026)	39,384
Net cash provided (used) by financing activities	**223,691**	(122,110)	161,961
Net increase (decrease) in cash and cash equivalents	**(6,463)**	(17,016)	(3,718)
Cash and cash equivalents acquired with acquisition	**7,859**	-0-	-0-
Cash and cash equivalents at January 1	**81,114**	98,130	101,848
Cash and cash equivalents at December 31	**$ 82,510**	$ 81,114	$ 98,130

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2003, 2002 and 2001

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 one commercial bank, a nondepository trust company, insurance agency and financial advisor, the Corporation provides a full range of loan, deposit, trust, insurance and financial advisory 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 2003. 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. Effective January 1, 2003 the Corporation changed the method it utilizes to determine the net gain or loss on the sale of securities from the specific identification method to the average cost method. This change did not result in a material change to the Corporation's financial condition or results of operations.

Loans

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

The Corporation considers a loan to be past due and still accruing interest when payment of interest or principal is contractually past due but the loan is well secured and in the process of collection. For installment, mortgage, term and other loans with amortizing payments scheduled monthly, 90 days past due is reached when four monthly payments are due and unpaid. For demand, time and other multi-payment obligations with payments scheduled other than monthly, delinquency status is calculated using number of days instead of number of payments. Revolving credit loans, including personal credit lines and home equity lines, are considered to be 90 days past due when the borrower has not made the minimum payment for four billing cycles.

A loan is placed in nonaccrual status when based on current information and events, it is probable that the Corporation will be unable to fully collect principal or interest due according to the contractual terms of the loan. A loan is also placed in nonaccrual status when based on regulatory definitions, the loan is maintained on a "cash basis" due to the weakened financial condition of the borrower. When a determination is made to place a loan in nonaccrual status, all accrued and unpaid interest for the current year is reversed against interest income and uncollected interest for previous years is charged against the allowance for credit losses. Generally, consumer and residential mortgage loans, which are well-secured and/or in the process of collection, are not normally placed in nonaccrual status. Nonaccrual loans are restored to accrual status when, based on a sustained period of repayment by the borrower in accordance with the contractual terms of the loan, the Corporation expects repayment of the remaining

contractual principal and interest, or when the loan otherwise becomes well secured and in the process of collection.

The Corporation considers a loan to be renegotiated when the loan terms have been renegotiated to a below market condition to provide a reduction or deferral of principal or interest as a result of the deteriorating financial position of the borrower and the loan is in compliance with the restructured terms.

The Corporation considers a loan to be impaired when, based on current information and events, it is probable that the Corporation will be unable to collect principal or interest due according to the contractual terms of the loan. Impaired loans include nonaccrual loans and renegotiated loans. 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.

Loans deemed uncollectible are charged off through the allowance for credit losses. Factors considered in assessing ultimate collectibility include past due status, financial condition of the borrower, collateral values and debt covenants including secondary sources of repayment by guarantors. Payments received on previously charged off loans are recorded as recoveries in the allowance for credit losses.

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 Corporation maintains an allowance for credit losses at a level deemed sufficient to absorb losses that 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. While allocations are made to specific loans and pools of loans, the total allowance is available for all loan losses. 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 that are assigned a rating of substandard, doubtful or loss. Substandard loans are those with a well-defined weakness or a weakness that 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands)

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

Allowance for Credit Losses (continued)

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, 2003.

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 classified loans on the primary watch list 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 special factors that management currently evaluates consist of portfolio risk or concentrations of credit and economic conditions. 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 that 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 that is often subjective and changing rapidly.

Bank Owned Life Insurance

The Corporation purchased insurance on the lives of certain groups 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 $103,625 and $92,644 at December 31, 2003 and 2002, respectively. The increase in cash surrender value of bank owned life insurance during 2003 includes $6,646 acquired as the result of a business combination completed during 2003.

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. Accelerated depreciation methods are used for furniture and equipment while straight-line depreciation is used for buildings and improvements. 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 state 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 that 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.

Business Combinations

The Corporation accounts for business combinations in accordance with the Financial Accounting Standards Board ("FASB") Statement No. 141, "Business Combinations" ("FAS No. 141") which requires the purchase method of accounting for business combinations initiated after June 30, 2001. Under the purchase method, net assets of the business acquired are recorded at their estimated fair value as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of the acquired business are included in the Corporation's income statement from the date of the acquisition.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least annually and written down and charged to results of operations in periods in which their recorded value is more than their estimated fair value. No impairment of goodwill or other intangibles has been identified since the adoption of FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142") on January 1, 2002. Prior to the adoption of FAS No. 142, goodwill was amortized on a straight-line basis over a period of 15-25 years. Goodwill amortization expense was $920 for 2001 representing basic and diluted earnings per share of $0.016.

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 undiscounted 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. Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Depreciation or amortization is discontinued on long-lived assets classified as held for sale.

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

"Other Comprehensive Income" (comprehensive income, excluding net income) for the 2003 period includes two components, the change in unrealized holding gains and losses on available for sale securities and the change in unrealized gains and losses on derivatives used in cashflow hedging relationships. Both components of other comprehensive income are reported net of related tax effects in the statement of changes in shareholders' equity. Prior to 2003 other comprehensive 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.

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

Current accounting guidelines permit two alternate methods of accounting for stock-based compensation, the intrinsic value method of APB Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and the fair value method of FASB Statement No. 123 "Accounting for Stock-Based Compensation" ("FAS No. 123"). In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("FAS No. 148"). FAS No. 148 did not amend FAS No. 123 to require companies to account for employee stock options using the fair value method but required all companies with stock-based compensation to provide additional disclosures, regardless of whether they account for that compensation using the fair value method of FAS No. 123 or the intrinsic value method of APB No. 25. As permitted under FAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands, except per share data)

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

Employee Stock Option Plan (continued)

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 had been implemented. No stock-based employee compensation expense is reflected in the Corporation's net income as reported in the Consolidated Statements of Income because all stock options granted under the Corporation's plan had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Management has considered various factors in its decision to account for stock-based compensation, including stock options granted, using the intrinsic value method of APB 25. Generally, expenses are easily measured as of the date they are incurred. At some point the Corporation must pay cash to cover these expenses. This is not the case with the methodology for expensing stock options. The amount expensed for the purposes of this disclosure is equivalent to a theoretic value calculated on the date the option was granted. Calculating a value of the option at the grant date requires a variety of assumptions that may have little to do with the actual realization of value by the option holder. In fact, many of the options are forfeited or expire for a variety of reasons without ever being exercised.

Additionally, valuation models operate under the assumption that the options are similar to those that are actively traded. In reality they are not marketable. Also there exists times where executives are unable to exercise their options due to trading restrictions. This limits the ability of certain option holders to benefit from some periods of volatility. Changes in the assumptions used could affect the estimated impact of the stock options and this disclosure.

The variety of methodologies and assumptions permitted to be used by each reporting company gives rise to a high degree of subjectivity in estimating the impact of the options. Management is concerned that due to the lack of uniformity and variations in assumptions, there may not be reasonable comparability between institutions. See NOTE 24 for additional information.

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of FAS No. 123 to stock-based employee compensation:

	December 31,		
	2003	2002	2001
Net income, as reported	**$ 53,300**	$ 43,526	$ 50,189
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	**(1,352)**	(2,278)	(1,978)
Pro forma net income	**$ 51,948**	$ 41,248	$ 48,211
Earnings per share:			
Basic—as reported	**$ 0.90**	$ 0.75	$ 0.87
Basic—pro forma	**$ 0.88**	$ 0.71	$ 0.83
Diluted—as reported	**$ 0.90**	$ 0.74	$ 0.86
Diluted—pro forma	**$ 0.87**	$ 0.70	$ 0.83
Average shares outstanding	**59,002,277**	58,409,614	57,885,478
Average shares outstanding assuming dilution	**59,387,055**	58,742,018	58,118,057

Derivative Instruments and Hedging Activities

The Corporation accounts for derivative instruments and hedging activities utilizing guidelines established in FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("FASB No. 133"), as amended. The Corporation recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in "Other Comprehensive Income," net of deferred taxes. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

Management periodically reviews contracts from various functional areas of the Corporation to identify potential derivatives embedded within selected contracts. Management has identified potential embedded derivatives in certain loan commitments for residential mortgages where the Corporation has intent to sell to an outside investor. Due to the short-term nature of these loan commitments and the minimal historical dollar amount of commitments outstanding, the corresponding impact on the Corporation's financial condition and results of operation has not been material. The Corporation had no freestanding derivative or hedging instruments prior to the third quarter of 2003 when it entered into an interest rate swap that is described in NOTE 7.

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period less unallocated ESOP shares.

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

Effective January 1, 2003, the Corporation adopted FASB Statement No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS No. 146"). FAS No. 146 replaced EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred In a Restructuring)." The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Statement No. 146 is applicable to exit or disposal activities initiated after December 31, 2002. Adoption of FAS No. 146 did not have a material impact on the Corporation's financial condition or results of operations.

In November, 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others." The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002, and require disclosure of the nature of the guarantee, the maximum potential of future payments the guarantor could be required to make under the guarantee and the current amount of the liability, if any, for the guarantor's obligation under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of FASB Statement No. 5 ("FAS No. 5") "Accounting for Contingencies," relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, but not limited to, guarantees related to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in Special Purpose Entities and guarantees of a company's own future performance. Other guarantees are subject to the disclosure requirements of FIN 45 but not the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under FAS No. 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa and a guarantee which is based on performance not price. Guarantees that have been entered into by the Corporation are disclosed in NOTE 13. The adoption of FIN 45 did not have a material impact on the Corporation's financial condition or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." As defined by FIN 46 a variable interest entity ("VIE") is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. This interpretation also defines when the assets, liabilities, noncontrolling interest and results of operations of a VIE should be included in a company's consolidated financial statements. Companies that hold variable interests in an entity will need to consolidate that entity if the company's interest in the VIE is such that the company will obtain a majority of the entity's expected residual returns, should such occur. FIN 46 applied immediately to variable interest entities created after January 31, 2003. The effective date of FIN 46 for pre-existing variable interest entities that are not special purpose entities has been deferred until the first quarter of 2004.

Based on the criteria established in FIN 46 as interpreted by the Securities and Exchange Commission, the Corporation deconsolidated its investment in First Commonwealth Capital Trust I, a Delaware business trust (the "Trust") during the fourth quarter of 2003. The Trust was established in 1999 to issue capital securities through a private offering to qualified investors and to issue common securities to the Corporation. The Trust used the proceeds from the sale of the capital securities to buy junior subordinated debentures from the Corporation with the same economic terms as the capital securities. The Trust distributes the cash payments it receives from the Corporation on the debentures to the holders of the capital securities and the common securities. The Trust will redeem all of the outstanding capital securities when the debentures are paid at maturity on September 1, 2029. The deconsolidation of the Trust resulted in an increase in long-term debt during the fourth quarter of 2003 of approximately $1,083 as a result of the subordinated debentures no longer being eliminated in consolidation and the capital securities no longer being included in the Consolidated Balance Sheet at December 31, 2003. The Consolidated Balance Sheet also reflects an increase in "Other Assets" in the same amount, which represents the Corporation's investment in the Trust. Although net income has not changed as a result of the deconsolidation of the Trust, "Other Revenue" has increased by the income generated by the Trust, which represents the difference between the Trust's interest income from the subordinated debentures and the Trust's interest expense from the capital securities. The Consolidated Statement of Income also reflects an increase in "Interest Expense on Long-term Debt" of approximately $103 as a result of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands)

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

New Accounting Pronouncements (continued)

interest expense on the subordinated debentures no longer being eliminated in consolidation and the interest expense on the capital securities no longer being included in the Consolidated Statement of Income.

As part of its community reinvestment initiatives, the Corporation invests in qualified affordable housing projects as a limited partner. The Corporation receives federal affordable housing tax credits for these limited partnership investments. The Corporation's maximum potential exposure to these partnerships is $3,556, consisting of the limited partnership investments plus unfunded commitments as of December 31, 2003. The Corporation's preliminary determination is that these investments will not be consolidated but continue to be accounted for under the equity method whereby the Corporation's portion of partnership losses are recognized as incurred. The adoption of FIN 46 is not expected to have a material impact on the Corporation's financial condition or results of operations.

In April 2003, the FASB issued Statement No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("FAS No. 149"). FAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133. In particular, FAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of FAS No. 149 did not have a material impact on the Corporation's financial condition or results of operations.

In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS No. 150"). FAS No. 150 represents the first phase of the FASB's broader project on (1) distinguishing between liability and equity instruments and (2) accounting for instruments that have characteristics of both liabilities and equity. This statement requires issuers to classify as liabilities the following three types of freestanding financial instruments: (1) mandatorily redeemable financial instruments, (2) obligations to repurchase the issuer's equity shares by transferring assets and (3) certain obligations to issue a variable number of shares. A freestanding financial instrument is one that is entered into separately and apart from any of the entity's other financial instruments or equity transactions or is entered in conjunction with some other transaction but can be legally detached and exercised on a separate basis. FAS No. 150 is relatively narrow in scope as it specifies only that certain instruments must be classified as liabilities but does not include additional guidance on the concept of what constitutes either a "liability" or "equity." Entities will continue to apply existing guidance on determining the balance sheet classification of instruments that do not specifically fall within the scope of FAS No. 150. FAS No. 150 applied immediately to financial instruments entered into or modified after May 31, 2003. For all other instruments that exist, this statement went into effect at the beginning of the first interim period beginning after June 15, 2003. Adoption of FAS No. 150 did not have a material impact on the Corporation's financial condition or results of operations.

On May 15, 2003, the Securities and Exchange Commission issued Staff Interpretation Topic D-107, which indicated that unless lease residuals were individually insured, no related amount should be considered in minimum lease payments. This interpretation is more restrictive than criteria previously utilized by many financial services companies in determining whether leases qualified for financing lease treatment. A majority of the Corporation's automobile leases have residual insurance coverage that includes a deductible and/or cap on maximum coverage for each year of lease originations. Interpretations of Topic D-107 have concluded that residual insurance policies with deductibles and caps calculated on a group basis do not meet the definition of "individually insured" even though: (1) individual lease losses are covered after consideration of the deductible in place and (2) the caps on loss coverage included in the policies are unlikely to be exceeded. Consequently, a majority of the Corporation's automobile leases outstanding at December 31, 2003 would not qualify as financing leases. Management has determined that the impact of changing from financing lease treatment to operating lease treatment is not material to the Corporation's financial condition or results of operations and is not anticipated to be material to future results of operations or financial condition; therefore, no restatement of previously issued financial statements is required. The Corporation had discontinued automobile leasing in April of 2003.

In December 2003, the FASB issued Statement No. 132(R) "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS No. 132(R)"). The FASB's revision of Statement No. 132 retains all of the disclosure items that were provided in FAS No. 132 and requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations and cash flows as well as the expanded disclosures of assumptions used in various calculations. The statement also requires interim reporting of the components of the net periodic benefit cost recognized. FAS No. 132(R) does not change the measurement or recognition for pension or other postretirement benefit plans. This statement is effective for financial statements with fiscal years ending after December 15, 2003. Disclosure requirements for future benefit payments are effective for fiscal years ending after June 15, 2004.

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, 2003			December 31, 2002			December 31, 2001		
	Pretax Amount	**Tax (Expense) Benefit**	**Net of Tax Amount**	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains (losses) on securities:									
Unrealized holding gains (losses) arising during the period	**$ (10,693)**	**$ 3,742**	**$ (6,951)**	$ 26,987	$ (9,445)	$ 17,542	$ 28,676	$(10,037)	$ 18,639
Less: reclassification adjustment for gains realized in net income	**(5,745)**	**2,011**	**(3,734)**	(606)	212	(394)	(3,274)	1,146	(2,128)
Unrealized gains (losses) on derivatives used in cash flow hedging relationships:									
Unrealized holding gains arising during the period	**11**	**(4)**	**7**	-0-	-0-	-0-	-0-	-0-	-0-
Net unrealized gains (losses)	**(16,427)**	**5,749**	**(10,678)**	26,381	(9,233)	17,148	25,402	(8,891)	16,511
Other comprehensive income	**$ (16,427)**	**$ 5,749**	**$(10,678)**	$ 26,381	$ (9,233)	$ 17,148	$ 25,402	$(8,891)	$ 16,511

NOTE 3—*Supplemental Cash Flow Disclosures*

	2003	2002	2001
Cash paid during the year for:			
Interest	**$ 101,361**	$ 124,953	$ 186,558
Income taxes	**$ 16,080**	$ 12,010	$ 11,890
Noncash investing and financing activities:			
ESOP loan reductions	**$ 1,061**	$ 1,071	$ 1,161
Loans transferred to other real estate owned and repossessed assets	**$ 4,270**	$ 5,029	$ 5,246
Gross increase (decrease) in market value adjustment to securities available for sale	**$ (16,438)**	$ 26,381	$ 25,402
Gross increase in market value adjustment of derivative instruments	**$ 11**	$ -0-	$ -0-
Treasury stock reissued for business combination	**$ 203**	$ 830	$ -0-

NOTE 4—*Pending Business Combination*

In December 2003, the Corporation signed a definitive agreement to acquire GA Financial, Inc. ("GAF"), an $890,274 asset savings and loan holding company operating a twelve branch network in Allegheny County in Pennsylvania as of December 31, 2003. Under terms of the agreement, the shareholders of GAF can elect to receive $35.00 in cash or an equivalent of First Commonwealth common stock for each GAF share owned, subject to proration as provided in the definitive agreement to ensure that 40% of the aggregate merger consideration will be paid in cash and 60% in First Commonwealth common stock. Common stock received by GAF shareholders is expected to qualify as a tax-free exchange. Completion of this transaction is subject to shareholder and regulatory approvals.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5—*Business Combination*

Effective December 5, 2003, the Corporation acquired 100% of the outstanding shares of Pittsburgh Financial Corp. ("PFC"), a financial holding company, which was headquartered in Wexford, Pennsylvania. PFC was the parent company of Pittsburgh Savings Bank (d/b/a BankPittsburgh). As a result of the merger, PFC merged into First Commonwealth Financial Corporation and BankPittsburgh merged into First Commonwealth Bank.

The acquisition of PFC is a significant step for the Corporation to implement its strategy for expansion into the Pittsburgh, Pennsylvania market. The acquisition of BankPittsburgh adds a new customer base, which presents the opportunity for First Commonwealth Bank to offer insurance, trust and financial planning services to a larger base of customers.

Shareholders of PFC elected to receive $20.00 in cash or an equivalent of First Commonwealth common stock for each PFC share owned. The aggregate purchase price of the transaction was $28,589, which included $11,587 in cash and common stock valued at $17,002. The value of the 1,179,037 issued shares of First Commonwealth common stock was based on the average market price of First Commonwealth's common stock over the ten-day period ending three trading days prior to consummation of the acquisition. As of December 31, 2003, the Corporation had recorded a liability for the cash settlement of the transaction in the amount of $11,587.

The merger was accounted for as a purchase transaction whereby the identifiable tangible and intangible assets and liabilities of PFC have been recorded at their fair values as of the acquisition date. Purchase accounting valuation adjustments, which represent the difference between the carrying value and the fair value of identifiable tangible and intangible assets and liabilities were recorded in the Consolidated Balance Sheet as of December 31, 2003. Preliminary goodwill in the amount of $21,723 was recorded as a result of the transaction. As prescribed under the purchase method of accounting, the results of PFC's operations have been included in the consolidated financial statements since the acquisition date.

The customer deposit base of $3,270 was the only amortizing intangible that was recorded with the transaction. An average annual amorization expense in the amount of $289.5 will be recorded in the Consolidated Income Statement over the average useful life. The weighted-average useful life of the customer deposit base intangible is 12 years. The goodwill that was recorded with the transaction is not deductible for tax purposes.

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 headquartered in Allison Park, Pennsylvania. As a registered investment advisor, SCC provided financial planning, asset management and consulting services to individuals, businesses, retirement plans, trusts and estates. SFA offered investment and insurance products as well as employee benefit services. Each of the outstanding shares of SCC and SFA 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. Goodwill in the amount of $1,656 was recorded as a result of the transaction. As prescribed under the purchase method of accounting, the results of operations of SCC and SFA from the date of acquisition are included in the Corporation's financial statements for 2002.

In October 2002, SFA was merged into SCC and the name was changed to First Commonwealth Financial Advisors, Inc. This acquisition should expand the Corporation's product offerings and positively impact fee based revenue, which is a continuing priority.

NOTE 6—*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 bank maintained with the Federal Reserve Bank average balances of $844 during 2003 and $1,896 during 2002.

NOTE 7—*Derivative Instruments*

During the third quarter of 2003 the Corporation entered into an interest rate swap with a notional amount of $25,000 which was initiated to hedge exposure to the variability in the future cash flows derived from adjustable rate loans. The interest rate swap will convert the interest receivables generated by the first $25,000 of principal outstandings of three month LIBOR based adjustable commercial loans from an adjustable rate to a fixed rate. The swap is a traditional pay-floating and receive-fixed interest rate swap with a three year term. The transaction is classified as a cash flow hedge whereby the fair value of the swap is recorded as an asset or liability and changes in the fair value are recorded as "Other Comprehensive Income" a component of shareholders' equity. During 2003, the hedge transaction had no ineffectiveness.

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, 2003 and 2002:

	2003				2002			
	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	**$ 24,301**	**$ 18**	**$ -0-**	**$ 24,319**	$ 3,509	$ 87	$ -0-	$ 3,596
Obligations of U.S. Government Corporation and Agencies:								
Mortgage Backed Securities	**1,210,347**	**12,702**	**(8,298)**	**1,214,751**	870,777	24,623	(39)	895,361
Other	**252,243**	**803**	**(1,008)**	**252,038**	101,464	1,324	-0-	102,788
Obligations of States and Political Subdivisions	**156,790**	**4,650**	**(99)**	**161,341**	115,936	2,800	(107)	118,629
Debt Securities Issued by Foreign Governments	**50**	**-0-**	**-0-**	**50**	75	-0-	-0-	75
Corporate Securities	**204,843**	**8,607**	**(216)**	**213,234**	235,460	9,000	(472)	243,988
Other Mortgage Backed Securities	**4,178**	**36**	**-0-**	**4,214**	51,388	958	-0-	52,346
Total Debt Securities	**1,852,752**	**26,816**	**(9,621)**	**1,869,947**	1,378,609	38,792	(618)	1,416,783
Equities	**93,103**	**6,126**	**-0-**	**99,229**	64,392	2,978	(1,382)	65,988
Total Securities Available for Sale	**$1,945,855**	**$ 32,942**	**$ (9,621)**	**$ 1,969,176**	$ 1,443,001	$ 41,770	$ (2,000)	$ 1,482,771

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 approximately 19 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, 2003 and 2002, 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, 2003, 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	$ 52,829	$ 53,199
Due after 1 but within 5 years	286,636	286,529
Due after 5 but within 10 years	15,600	16,212
Due after 10 years	283,162	295,042
	638,227	650,982
Mortgage Backed Securities	1,214,525	1,218,965
Total Debt Securities	$ 1,852,752	$ 1,869,947

Proceeds from the sales of securities available for sale were $62,941, $15,328 and $85,737 during 2003, 2002 and 2001, respectively. Gross gains of $5,709, $609 and $3,419 and gross losses of $-0-, $-0- and $224 were realized on those sales during 2003, 2002 and 2001, respectively.

Securities available for sale with an approximate fair value of $949,602 and $712,827 were pledged at December 31, 2003 and 2002, respectively, to secure public deposits and for other purposes required or permitted by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands)

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, 2003 and 2002:

	2003				2002			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Approximate Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Obligation of U.S. Government Corporation and Agencies:								
Mortgage Backed Securities	**$ 8,143**	**$ 444**	**$ -0-**	**$ 8,587**	$ 63,535	$ 1,713	$ -0-	$ 65,248
Other	**10,000**	**366**	**-0-**	**10,366**	15,000	934	-0-	15,934
Obligations of States and Political Subdivisions	**76,716**	**4,322**	**-0-**	**81,038**	96,869	3,685	-0-	100,554
Debt Securities Issued By Foreign Governments	**408**	**-0-**	**-0-**	**408**	408	-0-	-0-	408
Corporate Securities	**8,987**	**223**	**-0-**	**9,210**	22,026	725	(8)	22,743
Total Securities Held to Maturity	**$ 104,254**	**$ 5,355**	**$ -0-**	**$ 109,609**	$ 197,838	$ 7,057	$ (8)	$ 204,887

The amortized cost and estimated market value of debt securities at December 31, 2003, 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	$ 23,025	$ 23,646
Due after 1 but within 5 years	13,734	14,465
Due after 5 but within 10 years	29,362	31,683
Due after 10 years	29,990	31,228
	96,111	101,022
Mortgage Backed Securities	8,143	8,587
Total Debt Securities	$ 104,254	$ 109,609

There were no sales of securities held to maturity in 2003, 2002 or 2001.

Securities held to maturity with an amortized cost of $98,173 and $149,119 were pledged at December 31, 2003 and 2002, respectively, to secure public deposits and for other purposes required or permitted by law.

NOTE 10—*Other Than Temporary Impairment of Investments*

The following table presents the gross unrealized losses and fair values at December 31, 2003 by investment category and time frame for which the loss has been outstanding:

	Less Than 12 Months	
Description of Securities	Fair Value	Unrealized Losses
U.S. Treasury Obligations	$ -0-	$ -0-
U.S. Government Agency Obligations	101,423	(1,008)
U.S. Government Agency CMO and MBS	687,974	(8,298)
Corporate Securities	21,448	(216)
Municipal Securities	10,286	(99)
Total Securities	$ 821,131	$ (9,621)

There were no unrealized losses in the investment portfolio that were outstanding for twelve months or more. In addition, there were no unrealized losses on equity securities.

Management does not believe any individual unrealized loss as of December 31, 2003 represents an other-than-temporary impairment. The unrealized losses are primarily attributed to changes in interest rates. Finally, the Corporation has both the intent and the ability to hold the securities contained in the previous table for a time necessary to recover the amortized cost.

NOTE 11—*Loans (all domestic)*

Loans at year end were divided among these general categories:

	December 31, 2003	December 31, 2002
Commercial, financial, agricultural and other	**$ 655,740**	$ 633,955
Real estate loans:		
Construction and land development	**27,063**	20,998
1-4 family dwellings	**821,159**	739,018
Other real estate loans	**771,861**	663,220
Loans to individuals for household, family and other personal expenditures	**521,481**	505,139
Leases, net of unearned income	**28,033**	47,110
Subtotal	**2,825,337**	2,609,440
Unearned income	**(455)**	(806)
Total loans and leases	**$2,824,882**	$ 2,608,634

Most of the Corporation's business activity was with customers located within Pennsylvania. The portfolio is well diversified, and as of December 31, 2003 and 2002, there were no significant concentrations of credit.

The following table identifies the amount of nonperforming loans as of December 31:

	2003	2002
Loans on nonaccrual basis	**$ 12,459**	$ 23,450
Past due loans	**10,586**	14,774
Renegotiated loans	**195**	207
Total nonperforming loans	**$ 23,240**	$ 38,431

NOTE 12—*Allowance for Credit Losses*

Description of changes:

	2003	2002	2001
Allowance at January 1	**$ 34,496**	$ 34,157	$ 33,601
Additions:			
Recoveries of previously charged off loans	**1,705**	2,048	1,281
Provisions charged to operating expense	**12,770**	12,223	11,495
From acquisition	**3,109**	-0-	-0-
Deductions:			
Loans charged off	**14,695**	13,932	12,220
Allowance at December 31	**$ 37,385**	$ 34,496	$ 34,157

Relationship to impaired loans:

	2003	2002	2001
Recorded investment in impaired loans at end of period	**$ 12,654**	$ 23,657	$ 23,731
Average balance of impaired loans for the year	**$ 19,866**	$ 24,740	$ 16,133
Allowance for credit losses related to impaired loans	**$ 2,048**	$ 5,204	$ 3,835
Impaired loans with an allocation of the allowance for credit losses	**$ 6,327**	$ 15,065	$ 16,266
Impaired loans with no allocation of the allowance for credit losses	**$ 6,327**	$ 8,592	$ 7,465
Income recorded on impaired loans on a cash basis	**$ 1,185**	$ 286	$ 750

NOTE 13—*Financial Guarantees*

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, 2003 and 2002, the Corporation did not own or trade other financial instruments with significant off-balance sheet risk including derivatives such as futures, forwards, option contracts and the like, although such instruments may be appropriate to use in the future to manage interest rate risk. See NOTE 7 for a description of interest rate swaps.

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, 2003 and 2002:

	2003	2002
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 620,403**	$ 535,692
Standby letters of credit	**$ 28,836**	$ 32,301
Commercial letters of credit	**$ 328**	$ 385

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition

NOTE 13—*Financial Guarantees (continued)*

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.

Current notional amounts outstanding at December 31, 2003 for financial standby letters of credit and performance standby letters of credit include amounts of $9,510 and $927, respectively, issued during 2003 and subject to the provisions of FIN 45. There is currently no liability recorded on the Corporation's balance sheet related to these letters of credit.

NOTE 14—*Premises and Equipment*

Premises and equipment are described as follows:

	Estimated Useful Life	**2003**	2002
Land	Indefinite	**$ 7,177**	$ 6,023
Buildings and improvements	5-50 Years	**47,438**	46,995
Leasehold improvements	5-40 Years	**10,043**	9,112
Furniture and equipment	2-10 Years	**58,028**	52,732
Software	3-7 Years	**16,599**	15,777
Subtotal		**139,285**	130,639
Less accumulated depreciation and amortization		**92,747**	84,909
Total premises and equipment		**$ 46,538**	$ 45,730

Depreciation and amortization related to premises and equipment was $7,261 in 2003, $6,840 in 2002 and $6,153 in 2001.

The Corporation leases various premises and assorted equipment under noncancellable agreements. Total future minimal rental commitments at December 31, 2003 were as follows:

	Premises	Equipment
2004	$ 1,779	$ 314
2005	1,638	313
2006	1,592	313
2007	1,555	101
2008	1,389	101
Thereafter	5,584	-0-
Total	$ 13,537	$ 1,142

Under the terms of various lease agreements, increases in utilities and taxes may be passed on to the lessee. Such adjustments are not reflected in the above table. Additionally, various lease renewal options are available and are not included in the minimum lease commitments until such options are exercised. Total lease expense amounted to $1,939 in 2003, $1,699 in 2002 and $2,105 in 2001.

NOTE 15—*Interest-Bearing Deposits*

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

	2003	2002
NOW and Super NOW accounts	**$ 110,618**	$ 71,649
Savings and MMDA accounts	**1,302,451**	1,100,889
Time deposits	**1,466,559**	1,494,120
Total interest-bearing deposits	**$ 2,879,628**	$ 2,666,658

Interest-bearing deposits at December 31, 2003 and 2002, include allocations from NOW and Super NOW accounts of $405,521 and $374,695, 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, 2003 and 2002, were certificates of deposit in denominations of $100 or more of $398,716 and $489,702, respectively.

Interest expense related to $100 or greater certificates of deposit amounted to $18,227 in 2003, $21,685 in 2002 and $27,922 in 2001.

Included in time deposits at December 31, 2003, were certificates of deposit with the following scheduled maturities:

2004	$ 645,251
2005	389,610
2006	209,984
2007	136,991
2008 and thereafter	84,723
	$ 1,466,559

NOTE 16—*Short-term Borrowings*

Short-term borrowings at December 31 were as follows:

	2003			2002		
	Ending Balance	**Average Balance**	**Average Rate**	Ending Balance	Average Balance	Average Rate
Federal funds purchased	**$ 14,100**	**$ 68,455**	**1.32%**	$ 51,600	$ 63,169	1.86%
Borrowings from FHLB	**120,000**	**151,860**	**1.33%**	146,395	30,044	1.76%
Securities sold under agreements to repurchase	**450,140**	**326,226**	**1.16%**	222,577	225,793	1.78%
Treasury, tax and loan note option	**49,887**	**7,592**	**0.87%**	48,493	20,902	1.47%
Total	**$ 634,127**	**$554,133**	**1.22%**	$469,065	$339,908	1.77%
Maximum total at any month-end	**$699,326**			$469,065		

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

	2003	2002	2001
Federal funds purchased	**$ 902**	$ 1,176	$ 1,527
Borrowings from FHLB	**2,019**	530	243
Securities sold under agreements to repurchase	**3,768**	4,015	8,483
Treasury, tax and loan note option	**66**	308	974
Total interest on short-term borrowings	**$ 6,755**	$ 6,029	$ 11,227

NOTE 17—*Capital Securities and Subordinated Debentures*

Capital Securities and Subordinated Debentures outstanding at December 31 are as follows:

	2003		2002	
	Amount	**Rate**	Amount	Rate
Company obligated mandatorily redeemable capital securities of First Commonwealth Capital Trust I due 2029	**$ -0-**		$35,000	9.50%
Subordinated Debentures:				
Owed to Pittsburgh Home Capital Trust I and due 2028	**$ 8,292**	**8.56%**	$ -0-	
Owed to First Commonwealth Capital Trust I and due 2029	**36,083**	**9.50%**	-0-	
Owed to First Commonwealth Capital Trust II and due 2033	**30,929**	**LIBOR +2.85%**	-0-	
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	**$ 75,304**		$ -0-	
Total consolidated debt obligations related to subsidiary trusts	**$ 75,304**		$35,000	

The Corporation has established two trusts, First Commonwealth Capital Trust I and First Commonwealth Capital Trust II, of which 100% of the common equity is owned by the Corporation. The trusts were formed for the purpose of issuing company obligated mandatorily redeemable capital securities to third-party investors and investing the proceeds from the sale of the capital securities solely in junior subordinated debt securities ("subordinated debentures") of the Corporation. The subordinated debentures held by each trust are the sole assets of the trust.

Proceeds from subordinated debentures issued to First Commonwealth Capital Trust II in December 2003 are anticipated to be used to partially finance the pending business combination of GAF (See NOTE 4). Interest on the debentures is paid quarterly at a floating rate of LIBOR plus 2.85% which is reset quarterly. The Corporation may redeem the debentures, in whole or in part, at its option on or after January 23, 2009, at a redemption price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest to the date of the redemption. Deferred issuance costs of $471 are being amortized on a straight-line basis over the term of the securities.

NOTE 17—*Capital Securities and Subordinated Debentures (continued)*

Subordinated debentures outstanding at December 31, 2003 also include $8,292 previously issued by PFC to Pittsburgh Home Capital Trust I. These debentures were assumed by the Corporation when it acquired PFC in December 2003, and have since been called and paid by the Corporation in January 2004.

The subordinated debentures issued to First Commonwealth Capital Trust I have the same economic terms as the capital securities issued by the trust. The trust will redeem all of the outstanding capital securities when the debentures are paid at maturity. Subject to regulatory approvals, 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 104.75% of the principal amount of the debentures on September 1, 2009, declining ratably on each September 1 thereafter to 100% on September 1, 2019, plus accrued and unpaid interest to the date of the redemption. The Corporation may also redeem the debentures prior to September 1, 2009, upon the occurrence of certain tax or bank regulatory events, subject to regulatory approval.

NOTE 18—*Other Long-term Debt*

Other long-term debt at December 31 follows:

	2003			2002		
	Amount	**Weighted average contractual rate**	**Weighted average effective rate**	Amount	Weighted average contractual rate	Weighted average effective rate
ESOP loan due December 2005	**$ 1,994**	**LIBOR +1%**	**LIBOR +1%**	$ 3,055	LIBOR +1%	LIBOR +1%
ESOP loan due March 2006	**620**	**8.50%**	**8.50%**	-0-		
Repos due:						
2008	**22,522**	**5.51%**	**2.46%**	-0-		
Borrowings from FHLB due:						
2004	**19,271**	**5.81%**	**1.38%**	-0-		
2005	**8,555**	**5.46%**	**2.05%**	-0-		
2006	**6,104**	**6.01%**	**2.67%**	-0-		
2007	**21,319**	**5.20%**	**4.08%**	5,000	6.94%	6.94%
2008	**438,413**	**5.39%**	**5.26%**	415,000	5.38%	5.38%
2009	**11,557**	**6.49%**	**3.52%**	-0-		
2010	**140,025**	**5.70%**	**4.47%**	80,000	5.14%	5.14%
2011	**5,895**	**5.68%**	**5.68%**	6,525	5.68%	5.68%
2014	**17,964**	**5.40%**	**4.64%**	10,000	5.40%	5.40%
2016	**1,748**	**5.65%**	**5.65%**	1,844	5.65%	5.65%
2017	**6,271**	**6.17%**	**6.17%**	6,542	6.17%	6.17%
2019	**7,789**	**5.72%**	**5.72%**	8,091	5.72%	5.72%
2020	**817**	**7.37%**	**7.37%**	842	7.37%	7.37%
2022	**7,804**	**5.90%**	**5.90%**	8,035	5.90%	5.90%
	$ 718,668			$ 544,934		

The weighted-average effective rates of long-term debt in the schedule above include the effects of the purchase accounting valuation adjustments that were recorded for the acquisition that was discussed in NOTE 5.

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 above 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 this NOTE, but are described in NOTE 17.

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

	2004	2005	2006	2007	2008	Thereafter
Long-term debt payments	$23,629	$ 12,981	$ 9,547	$ 19,607	$459,279	$175,658
Purchase valuation amortization	$ 3,920	$ 3,243	$ 3,096	$ 2,835	$ 2,201	$ 2,672

The amounts on the purchase valuation amortization row in the table above include fair market adjustments from the business combination, which is described in NOTE 5.

NOTE 19—*Common Share Commitments*

At December 31, 2003 and 2002, the Corporation had 100,000,000 common shares authorized. 63,704,445 shares were issued at December 31, 2003, and 62,525,408 shares were issued at December 31, 2002. Issued shares were reduced by 2,992,425 shares of treasury stock at December 31, 2003 and 3,562,869 shares of treasury stock at December 31,

2002. The Corporation may be required to issue additional shares to satisfy common share purchases related to the employee stock ownership plan described in NOTE 22. The dilutive effective of stock options outstanding on average shares outstanding in the diluted earnings per share reported on the income statement were 384,778, 332,404 and 232,579 shares at December 31, 2003, 2002 and 2001, respectively.

Treasury shares consisting of 552,781 and 447,001 were reissued during 2003 and 2002 upon exercise of stock options. Treasury shares consisting of 17,663 and 67,484 were reissued in 2003 and 2002, respectively, to fund the business combination with SCC and SFA as described in NOTE 5.

During 2003, 1,179,037 common shares were issued to fund the business combination with PFC, which is also described in NOTE 5.

NOTE 20—*Restructuring Charges*

The Corporation incurred restructuring charges of $6,140 during 2002 in accordance with EITF 94-3. These restructuring charges were comprised of the following: $4,652 of employee separation costs consisting of severance packages for 95 employees from various affiliates of the Corporation including all levels of staff from the executive management level to back office support staff, $1,068 related to realignment of the various Boards of Directors and Board committees and $420 primarily related to the write-off of obsolete signage and supplies. These amounts are included as restructuring charges, as a component of Other Expenses on the Consolidated Statements of Income.

These restructuring charges resulted from the merger of the charters of the Corporation's two commercial banks (First Commonwealth Bank and Southwest Bank) and the adoption of a new common brand and identity for all financial services subsidiaries.

Actual termination benefits paid and charged against the total severance liability were $2,823 and $1,263 during 2003 and 2002, respectively, leaving a remaining unpaid liability for severance costs of $566 at December 31, 2003. No additional severance accruals or adjustments were recorded during 2003 related to the 2002 restructuring.

NOTE 21—*Income Taxes*

The income tax provision consists of:

	2003	2002	2001
Current tax provision for income exclusive of securities transactions:			
Federal	**$ 13,438**	$ 9,279	$ 14,865
State	**-0-**	1	55
Securities transactions	**2,048**	225	1,165
Total current tax provision	**15,486**	9,505	16,085
Deferred tax provision (benefit)	**(2,235)**	(594)	(831)
Total tax provision	**$ 13,251**	$ 8,911	$ 15,254

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, 2003 and 2002, were as follows:

	2003	2002
Deferred tax assets:		
Allowance for credit losses	**$ 13,107**	$ 12,074
Postretirement benefits other than pensions	**1,040**	1,036
Basis difference in assets acquired	**4,710**	-0-
Severance expense	**250**	1,186
Other	**1,140**	948
Total deferred tax assets	**20,247**	15,244
Deferred tax liabilities:		
Accumulated accretion of bond discount	**(124)**	(327)
Unrealized gain on securities available for sale	**(8,166)**	(13,920)
Lease financing deduction	**(6,439)**	(9,272)
Loan origination fees and costs	**(1,562)**	(1,774)
Basis difference in assets acquired	**-0-**	(337)
Pension expense	**-0-**	(399)
Accumulated depreciation	**(1,343)**	(578)
Other	**(574)**	(574)
Total deferred tax (liabilities)	**(18,208)**	(27,181)
Net deferred tax asset (liability)	**$ 2,039**	$ (11,937)

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

	2003		2002		2001	
	Amount	**% of Pretax Income**	Amount	% of Pretax Income	Amount	% of Pretax Income
Tax at statutory rate	**$ 23,293**	**35.0**	$ 18,353	35.0	$ 22,905	35.0
Increase (decrease) resulting from:						
Income from bank owned life insurance	**(1,520)**	**(2.3)**	(1,649)	(3.1)	(1,616)	(2.5)
Other nontaxable income	**(7,332)**	**(11.0)**	(6,216)	(11.9)	(5,521)	(8.4)
State income taxes	**-0-**	**0.0**	1	0.0	55	0.1
Other	**(1,190)**	**(1.8)**	(1,578)	(3.0)	(569)	(0.9)
Total tax provision	**$ 13,251**	**19.9**	$ 8,911	17.0	$ 15,254	23.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands)

NOTE 22—*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 $938 in 2003, $940 in 2002 and $1,173 in 2001 (See NOTE 24).

The employees of PFC were covered by a leveraged ESOP plan. The PFC ESOP had unallocated ESOP shares of 43,174 at the merger date. The plan has been terminated effective December 5, 2003, pending liquidation of unallocated ESOP shares with a fair value of $620 to be utilized to pay off the outstanding PFC ESOP loan payable. Remaining shares will be allocated to the participants of the PFC ESOP plan. No compensation cost for the PFC ESOP plan is required to be recognized in the Consolidated Statements of Income.

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 80% of compensation to the plan of which up to 4% is matched 100% by the employer's contribution. The 401(k) plan expense was $2,606 in 2003, $2,616 in 2002 and $2,583 in 2001. Prior to the plan amendment effective February 1, 2002, the Corporation's 401(k) plan permitted each participating employee to contribute 10% of compensation to the plan of which up to 4% was matched 100% by the employer's contribution.

The 401(k) plan of PFC was merged into the Corporation's 401(k) plan effective January 1, 2004, whereby all eligible PFC employees began to participate in the Corporation's plan with no lapse in credited service. During the period from the merger date of December 5, 2003, until December 31, 2003, the PFC employees continued to participate in the PFC plan and to receive employer contributions under the terms of the plan.

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 25% of 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 deferred compensation of the participant for the plan year. 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. In addition, the Corporation may make an extra non-elective contribution for plan participants.

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 $235 in 2003, $133 in 2002 and $150 in 2001.

Pension Plans of Acquired Subsidiaries

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 participant's 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.

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

	2003	2002	2001
Service cost	**$ -0-**	$ -0-	$ -0-
Interest cost on projected benefit obligation	**-0-**	-0-	346
Expected return on plan assets	**-0-**	-0-	(438)
Net amortization and deferral	**-0-**	-0-	(33)
Net periodic pension cost (benefit)	**$ -0-**	$ -0-	$ (125)

Due to the termination of the plan, there were no benefit obligations and no assets held as of December 31, 2003 and 2002.

PFC participated in a multi-employer defined benefit pension plan that covered all eligible employees and provided benefits based on each employee's years of service and compensation. No contributions were made to the plan and no compensation cost was recognized in the Consolidated Statements of Income. The estimated withdrawal liability at December 31, 2003 is $374.

Postretirement Benefits other than Pensions for Acquired Subsidiary

Employees of Southwest Bank were also covered by a post retirement benefit plan. The measurement date for this plan was October 1.

Net periodic benefit cost of this plan was as follows:

	2003	2002	2001
Service cost	**$ -0-**	$ -0-	$ 6
Interest cost on projected benefit obligation	**338**	273	232
Amortization of transition obligation	**2**	2	2
Loss amortization	**121**	60	65
Net periodic benefit cost	**$ 461**	$ 335	$ 305

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:

	2003	2002
Accumulated post retirement benefit obligation:		
Retirees	**$ 5,901**	$ 5,142
Actives	**-0-**	-0-
Total accumulated postretirement benefit obligation	**5,901**	5,142
Plan assets at fair value	**-0-**	-0-
Accumulated postretirement benefit obligation in excess of plan assets	**5,901**	5,142
Unrecognized transition obligation	**(14)**	(16)
Unrecognized net loss	**(2,844)**	(2,165)
Accrued benefit liability recognized on the balance sheet	**$ 3,043**	$ 2,961

The following table sets forth the change in benefit obligation:

	2003	2002
Benefit obligation at beginning of year	**$ 5,142**	$ 4,151
Service cost	**-0-**	-0-
Interest cost	**338**	273
Benefit payments	**(379)**	(245)
Actuarial loss	**800**	963
Benefit obligation at end of year	**$ 5,901**	$ 5,142

The discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation was 6.25% for 2003 and 6.75% for 2002. The health care cost trend rates used for 2003 were projected at an initial rate of 8.00% for 2004 decreasing over time to an annual rate of 4.25% in 2008 for both indemnity plan participants and non-indemnity plan participants. For 2002, rates used were projected at an initial rate of 9.00% for 2003 decreasing over time to an annual rate of 4.25% in 2008 for both indemnity plan participants and non-indemnity plan participants.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") introduces a prescription drug benefit under Medicare Part D. The Act also introduces a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The preceding measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost do not reflect the effects of the Act on the Corporation's plan. The Corporation has elected to defer recognizing the effects of the Act in accounting and reporting for its plan until authoritative accounting guidance, including guidance on accounting for the federal subsidy is issued. That guidance, when issued, could impact reported calculations.

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	$ 23	$ (20)
Effect on postretirement benefit obligation	$ 372	$ (314)

NOTE 23—*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 $1,994 at December 31, 2003 and $3,055 at December 31, 2002.

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, represent the Corporation's prepayment of future compensation expense. The shares acquired by 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 is scheduled to occur over a remaining two-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, 2001	372,560	91,214	281,346
Shares allocated during 2002	(100,894)	(24,702)	(76,192)
Shares in suspense December 31, 2002	271,666	66,512	205,154
Shares allocated during 2003	(96,118)	(23,533)	(72,585)
Shares in suspense December 31, 2003	175,548	42,979	132,569

The fair market value of the new shares remaining in suspense was approximately $1,890 and $2,359 at December 31, 2003 and 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands, except per share data)

NOTE 23—*Unearned ESOP Shares (continued)*

Interest on ESOP loans was $60 in 2003, $109 in 2002 and $263 in 2001. During 2003, 2002 and 2001, dividends on unallocated shares in the amount of $184, $242 and $301, respectively, were used for debt service while all dividends on allocated shares were allocated or paid to the participants.

Unearned ESOP shares of PFC at December 31, 2003 are excluded from the preceding analysis. The PFC ESOP plan was terminated effective December 5, 2003. Unallocated shares remaining after liquidation of shares to fund the PFC ESOP loan payable will be allocated to PFC ESOP participants.

NOTE 24—*Stock Option Plan*

At December 31, 2003, 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 historical stock splits. 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 from 1997 through 2003 were exercisable by December 31 of the grant year respectively, and expire ten years from the grant date. All equity compensation plans are approved by security holders.

At December 5, 2003, the Corporation completed its merger with PFC, at which time all outstanding PFC options were converted to First Commonwealth options at a conversion rate of 1.387. These options were not granted from the Corporation's existing stock option plan. First Commonwealth assumed the option plans of PFC. Under these plans, a total of 62,322 First Commonwealth shares were reserved for issuance due to the exercise of previously granted PFC options assumed in the merger. No further grants will be made under these plans.

Equity Compensation Plan Information as of December 31, 2003:

	Number of Options Outstanding	Weighted Average Exercise Price of Options Outstanding	Shares Available for Future Grant
Equity compensation plans approved by security holders	2,965,726	$ 11.51	74,274

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 FAS No. 123, the Corporation's net income and earnings per share would have been reduced to the pro forma amounts shown below:

	2003		2002		2001	
	As Reported	**Pro Forma**	As Reported	Pro Forma	As Reported	Pro Forma
Net income	**$ 53,300**	**$ 51,948**	$ 43,526	$ 41,248	$ 50,189	$ 48,211
Basic earnings per share	**$ 0.90**	**$ 0.88**	$ 0.75	$ 0.71	$ 0.87	$ 0.83
Diluted earnings per share	**$ 0.90**	**$ 0.87**	$ 0.74	$ 0.70	$ 0.86	$ 0.83

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:

	2003	2002	2001
Dividend yield	**5.14% per annum**	5.13% per annum	5.59% per annum
Expected volatility	**40.3%**	54.0%	55.1%
Risk-free interest rate	**4.1%**	5.0%	5.1%
Expected option life	**7.0 years**	7.0 years	10.0 years

A summary of the status of the Corporation's outstanding stock options as of December 31, 2003, 2002, and 2001 and changes for the years ending on those dates is presented below:

	2003		2002		2001	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**2,841,772**	**$11.33**	2,687,887	$ 11.13	2,210,651	$ 11.12
PFC converted options at merger	**62,322**	**$ 7.60**	-0-	$ 0.00	-0-	$ 0.00
Granted	**641,912**	**$12.06**	820,775	$ 11.70	796,743	$ 10.75
Exercised	**(549,215)**	**$10.71**	(447,001)	$ 10.51	(256,174)	$ 9.76
Forfeited	**(31,065)**	**$12.91**	(219,889)	$ 11.90	(63,333)	$ 11.89
Outstanding at end of year	**2,965,726**	**$11.51**	2,841,772	$ 11.33	2,687,887	$ 11.13
Exercisable at end of year	**2,965,726**	**$11.51**	2,841,772	$ 11.33	2,687,887	$ 11.13

The following table summarizes information about the stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Average Number Outstanding At 12/31/03	Weighted-Weighted-Remaining Contract Life	Average Exercise Price	Weighted-Number Exercisable At 12/31/03	Average Exercise Price
$ 5.41-$ 8.99	45,078	7.2	$ 7.21	45,078	$ 7.21
$ 9.00-$ 9.99	293,747	2.9	$ 9.23	293,747	$ 9.23
$ 10.00-$ 10.99	429,976	7.1	$ 10.75	429,976	$10.75
$ 11.00-$ 11.99	1,298,938	6.7	$ 11.47	1,298,938	$11.47
$ 12.00-$ 15.00	897,987	7.5	$ 12.88	897,987	$12.88
Total	2,965,726	6.6	$ 11.51	2,965,726	$11.51

NOTE 25—*Commitments and Contingent Liabilities*

There are no 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 26—*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 deposit and loan transactions were made on substantially the same terms, such as 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 transactions will be made in the future.

The following is an analysis of loans to those parties whose aggregate loan balances exceeded $60 during 2003:

Balances December 31, 2002	$ 4,603
Advances	5,956
Repayments	(6,911)
Other	1,129
Balances December 31, 2003	$ 4,777

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

NOTE 27—*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, 2003, dividends from subsidiary banks were restricted not to exceed $84,489. 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 judgments 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, 2003, the Corporation and its banking subsidiaries meet all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notifications from the Federal Reserve Board and Federal Deposit Insurance Corporation categorized First Commonwealth Bank as well capitalized under the regulatory framework for prompt corrective action. To be considered as well capitalized, the bank must maintain minimum total risk-based capital, Tier I risk-based capital and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands)

NOTE 27—*Regulatory Restrictions and Capital Adequacy (continued)*

	Actual		Regulatory Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003						
Total Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 494,541	14.5%	$ 273,207	8.0%	N/A	N/A
First Commonwealth Bank	$ 403,313	12.0%	$ 269,734	8.0%	$ 337,167	10.0%
Tier I Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 457,156	13.4%	$ 136,603	4.0%	N/A	N/A
First Commonwealth Bank	$ 365,929	10.9%	$ 134,867	4.0%	$ 202,300	6.0%
Tier I Capital to Average Assets						
First Commonwealth Financial Corporation	$ 457,156	9.4%	$ 146,571	3.0%	N/A	N/A
First Commonwealth Bank	$ 365,929	7.6%	$ 145,263	3.0%	$ 242,105	5.0%
As of December 31, 2002						
Total Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 436,850	14.0%	$ 249,240	8.0%	N/A	N/A
First Commonwealth Bank	$ 402,319	13.0%	$ 246,779	8.0%	$ 308,474	10.0%
Tier I Capital to Risk Weighted Assets						
First Commonwealth Financial Corporation	$ 402,354	12.9%	$ 124,620	4.0%	N/A	N/A
First Commonwealth Bank	$ 367,823	11.9%	$ 123,389	4.0%	$ 185,084	6.0%
Tier I Capital to Average Assets						
First Commonwealth Financial Corporation	$ 402,354	8.9%	$ 135,282	3.0%	N/A	N/A
First Commonwealth Bank	$ 367,823	8.2%	$ 133,944	3.0%	$ 223,239	5.0%

NOTE 28—*Condensed Financial Information of First Commonwealth Financial Corporation (parent company only)*

Balance Sheets

	December 31,	
	2003	2002
Assets		
Cash	**$ 1,376**	$ 13,844
Securities available for sale	**33,052**	1,407
Loans to affiliated parties	**439**	498
Investment in subsidiaries	**462,894**	413,542
Investment in unconsolidated subsidiary trusts	**2,280**	-0-
Investment in jointly-owned company	**5,622**	5,081
Premises and equipment	**5,887**	6,095
Dividends receivable from subsidiaries	**11,517**	3,394
Receivable from subsidiaries	**6,085**	7,625
Other assets	**5,126**	1,936
Total assets	**$ 534,278**	$ 453,422
Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	**$ 14,199**	$ 3,755
Dividends payable	**9,714**	9,139
Loans payable	**2,613**	3,055
Subordinated debentures payable	**76,806**	36,083
Shareholders' equity	**430,946**	401,390
Total liabilities and shareholders' equity	**$ 534,278**	$ 453,422

Statements of Income

	Years Ended December 31,		
	2003	2002	2001
Interest and dividends	**$ 48**	$ 48	$ 42
Dividends from subsidiaries	**64,907**	43,609	40,442
Interest expense	**(3,629)**	(3,570)	(3,724)
Net securities gains (losses)	**742**	-0-	-0-
Other revenue	**253**	-0-	16
Operating expenses	**(9,237)**	(9,161)	(7,033)
Income before taxes and equity in undistributed earnings of subsidiaries	**53,084**	30,926	29,743
Applicable income tax benefits	**4,570**	5,304	3,495
Income before equity in undistributed earnings of subsidiaries	**57,654**	36,230	33,238
Equity in undistributed earnings of subsidiaries	**(4,354)**	7,296	16,951
Net income	**$ 53,300**	$ 43,526	$ 50,189

Statements of Cash Flows

	Years Ended December 31,		
	2003	2002	2001
Operating Activities			
Net income	**$ 53,300**	$ 43,526	$ 50,189
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**835**	537	1,140
Net gains on sale of assets	**(739)**	-0-	-0-
Decrease (increase) in prepaid income taxes	**256**	(397)	431
Undistributed equity in subsidiaries	**(4,482)**	(7,296)	(16,951)
Other—net	**(2,193)**	1,270	(592)
Stock option tax benefit	**535**	225	269
Net cash provided by operating activities	**47,512**	37,865	34,486
Investing Activities			
Transactions with securities available for sale:			
Purchases of investment securities	**(32,785)**	(943)	(123)
Sales of investment securities	**1,766**	-0-	-0-
Net change in loans to affiliated parties	**59**	42	(61)
Purchases of premises and equipment	**(125)**	(33)	(90)
Changes in receivable from and net investment in subsidiary	**(28,918)**	436	(792)
Net cash used by investing activities	**(60,003)**	(498)	(1,066)
Financing Activities			
Issuance of subordinated debentures	**30,929**	-0-	-0-
Discount on dividend reinvestment plan purchases	**(706)**	(637)	(612)
Treasury stock acquired	**-0-**	-0-	-0-
Treasury stock reissued	**5,923**	4,655	2,499
Cash dividends paid	**(36,630)**	(35,208)	(33,809)
Net cash used by financing activities	**(484)**	(31,190)	(31,922)
Net increase (decrease) in cash	**(12,975)**	6,177	1,498
Cash at beginning of year	**13,844**	7,667	6,169
Cash acquired with acquisition	**507**	-0-	-0-
Cash at end of year	**$ 1,376**	$ 13,844	$ 7,667

Cash dividends declared per common share were $0.625, $0.605 and $0.585 for 2003, 2002 and 2001, respectively.

Dividends from subsidiaries for 2003 included a special dividend in the amount of $11,436 that was received from First Commonwealth Bank, a wholly owned subsidiary. After distribution of the special dividend, which was within guidelines established by the banking regulators, First Commonwealth Bank remains classified as a well-capitalized institution. During 2003, the parent company also received a dividend-in-kind from First Commonwealth Bank in the amount of $8,797, which was received in the form of an investment holding company subsidiary. The subsidiary, known as FraMal Holdings Corporation, was acquired by First Commonwealth Bank in the acquisition, which is described in NOTE 5.

During 2003, the parent company obtained a one-year line of credit to be used for general operating cashflows. The line of credit was with an unrelated financial institution for $15,000, and as of December 31, 2003, had no amounts outstanding.

NOTE 29—*Fair Values of Financial Instruments*

Below are various estimated fair values at December 31, 2003 and 2002, 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: The estimated fair values of all loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

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

NOTE 29—*Fair Values of Financial Instruments (continued)*

difficulty in predicting the timing of such cash flows, fair values were not estimated for these instruments for both periods.

Deposit liabilities: Management estimates that the fair value of deposits is based on a market valuation of similar deposits. The carrying value of variable rate time deposit accounts and certificates of deposit approximate their fair values at the report date. Also, fair values of fixed rate time deposits for both periods are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregated expected maturities.

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

Long-term debt: The fair value of long-term debt is 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, 2003 and 2002:

	2003		2002	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and due from banks	**$ 82,510**	**$ 82,510**	$ 81,114	$ 81,114
Interest-bearing deposits with banks	**$ 5,362**	**$ 5,362**	$ 1,973	$ 1,973
Securities available for sale	**$ 1,969,176**	**$ 1,969,176**	$ 1,482,771	$ 1,482,771
Investments held to maturity	**$ 104,254**	**$ 109,609**	$ 197,838	$ 204,887
Loans, net	**$ 2,787,497**	**$ 2,858,032**	$ 2,574,138	$ 2,631,557
Financial liabilities				
Deposits	**$ 3,288,275**	**$ 3,193,216**	$ 3,044,124	$ 3,011,354
Short-term borrowings	**$ 634,127**	**$ 634,361**	$ 469,065	$ 469,381
Long-term debt	**$ 793,972**	**$ 863,444**	$ 579,934	$ 642,127

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, 2003 and 2002 are as follows:

	2003			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Interest income	**$ 62,317**	**$ 61,186**	**$ 59,605**	**$ 60,665**
Interest expense	**25,471**	**25,745**	**24,616**	**24,409**
Net interest income	**36,846**	**35,441**	**34,989**	**36,256**
Provision for credit losses	**3,460**	**3,465**	**3,495**	**2,350**
Net interest income after provision for credit losses	**33,386**	**31,976**	**31,494**	**33,906**
Securities gains	**2,234**	**3,221**	**166**	**230**
Other operating income	**8,837**	**9,977**	**13,691**	**10,088**
Litigation settlement	**(610)**	**-0-**	**-0-**	**-0-**
Other operating expenses	**28,382**	**28,382**	**28,005**	**28,496**
Income before income taxes	**16,685**	**16,792**	**17,346**	**15,728**
Applicable income taxes	**3,381**	**3,365**	**3,511**	**2,994**
Net income	**$ 13,304**	**$ 13,427**	**$ 13,835**	**$ 12,734**
Basic earnings per share	**$ 0.23**	**$ 0.23**	**$ 0.23**	**$ 0.21**
Diluted earnings per share	**$ 0.23**	**$ 0.23**	**$ 0.23**	**$ 0.21**
Average shares outstanding	**58,703,260**	**58,769,160**	**58,950,258**	**59,577,396**
Average shares outstanding assuming dilution	**58,934,248**	**59,101,475**	**59,376,716**	**60,122,832**

	2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 70,523	$ 69,878	$ 68,784	$ 66,383
Interest expense	32,481	31,945	30,457	27,790
Net interest income	38,042	37,933	38,327	38,593
Provision for credit losses	2,917	3,008	3,103	3,195
Net interest income after provision for credit losses	35,125	34,925	35,224	35,398
Securities gains	39	576	26	1
Other operating income	8,572	9,583	9,597	9,701
Litigation settlement	8,000	-0-	-0-	-0-
Restructuring charges	-0-	3,116	2,473	551
Other operating expenses	27,665	28,721	27,240	28,564
Income before income taxes	8,071	13,247	15,134	15,985
Applicable income taxes	433	2,290	2,947	3,241
Net income	$ 7,638	$ 10,957	$ 12,187	$ 12,744
Basic earnings per share	$ 0.13	$ 0.19	$ 0.21	$ 0.22
Diluted earnings per share	$ 0.13	$ 0.19	$ 0.21	$ 0.22
Average shares outstanding	58,142,359	58,359,322	58,521,562	58,608,857
Average shares outstanding assuming dilution	58,484,806	58,851,264	58,862,215	58,765,383

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. Financial statement amounts for prior periods have been reclassified to conform to the presentation format used in 2003. The reclassifications had no effect on the Corporation's financial condition or results of operations.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
Interest income	**$ 243,773**	$ 275,568	$ 308,891	$ 311,882	$ 296,089
Interest expense	**100,241**	122,673	167,170	174,539	152,653
Net interest income	**143,532**	152,895	141,721	137,343	143,436
Provision for credit losses	**12,770**	12,223	11,495	10,030	9,450
Net interest income after provision for credit losses	**130,762**	140,672	130,226	127,313	133,986
Securities gains	**5,851**	642	3,329	1,745	565
Other operating income	**42,593**	37,453	37,776	31,938	33,660
Litigation settlement	**(610)**	8,000	-0-	-0-	-0-
Restructuring charges	**-0-**	6,140	-0-	-0-	-0-
Other operating expenses	**113,265**	112,190	105,888	99,461	95,569
Income before taxes	**66,551**	52,437	65,443	61,535	72,642
Applicable income taxes	**13,251**	8,911	15,254	14,289	19,612
Net income	**$ 53,300**	$ 43,526	$ 50,189	$ 47,246	$ 53,030
Per Share Data					
Net income	**$ 0.90**	$ 0.75	$ 0.87	$ 0.82	$ 0.88
Dividends declared	**$ 0.625**	$ 0.605	$ 0.585	$ 0.565	$ 0.515
Average shares outstanding	**59,002,277**	58,409,614	57,885,478	57,558,929	60,333,092
Per Share Data Assuming Dilution					
Net income	**$ 0.90**	$ 0.74	$ 0.86	$ 0.82	$ 0.88
Dividends declared	**$ 0.625**	$ 0.605	$ 0.585	$ 0.565	$ 0.515
Average shares outstanding	**59,387,055**	58,742,018	58,118,057	57,618,671	60,569,322
At End of Period					
Total assets	**$ 5,189,195**	$ 4,524,743	$ 4,583,530	$ 4,372,312	$ 4,340,846
Investment securities	**2,073,430**	1,680,609	1,762,408	1,636,337	1,592,389
Loans and leases, net of unearned income	**2,824,882**	2,608,634	2,567,934	2,490,827	2,500,059
Allowance for credit losses	**37,385**	34,496	34,157	33,601	33,539
Deposits	**3,288,275**	3,044,124	3,093,150	3,064,146	2,948,829
Company obligated mandatorily redeemable capital securities of subsidiary trust	**-0-**	35,000	35,000	35,000	35,000
Subordinated debentures	**75,304**	-0-	-0-	-0-	-0-
Other long-term debt	**718,668**	544,934	629,220	621,855	603,355
Shareholders' equity	**430,946**	401,390	370,066	334,156	286,683
Key Ratios					
Return on average assets	**1.12%**	0.96%	1.11%	1.10%	1.25%
Return on average equity	**12.95%**	11.09%	13.85%	15.65%	15.44%
Net loans to deposits ratio	**84.77%**	84.56%	81.92%	80.19%	83.64%
Dividends per share as a percent of net income per share	**69.44%**	80.67%	67.24%	68.90%	58.52%
Average equity to average assets ratio	**8.68%**	8.64%	8.01%	7.00%	8.10%

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, 2003, 2002 and 2001 and are intended to supplement, and should be read in conjunction with, the consolidated financial statements and related footnotes.

Sections of this financial review, as well as the notes to the consolidated financial statements, contain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995), which reflect management's beliefs and expectations based on information currently available and may contain the words "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective," and similar expressions or variations on such expressions. These forward-looking statements are inherently subject to significant risks and uncertainties, including but not limited to: changes in general economic and financial market conditions, the Corporation's ability to effectively carry out its business plans, changes in regulatory or legislative requirements, changes in competitive conditions and continuing consolidation of the financial services industry. Although management believes the expectations reflected in such forward-looking statements are reasonable, actual results could differ materially. 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.

Effective December 5, 2003, the Corporation acquired all of the outstanding shares of Pittsburgh Financial Corporation ("PFC"). In addition, the Corporation acquired all of the outstanding shares of Strategic Capital Concepts, Inc. ("SCC") and Strategic Financial Advisors, Inc. ("SFA"), effective March 1, 2002. As required under the purchase method of accounting, the results of PFC, SCC and SFA have been included in the Corporation's financial statements since their respective acquisition dates. In October 2002, SFA was merged into SCC and the name was changed to First Commonwealth Financial Advisors, Inc.

Financial statement amounts in prior periods have been reclassified to conform to the presentation format used in 2003. The reclassifications had no effect on the Corporation's financial condition or results of operations.

Critical Accounting Policies and Significant Estimates

The Corporation considers accounting policies and estimates to be critical to reported financial results if (1) the estimate requires management to make assumptions about matters that are highly uncertain and (2) the different estimates that management reasonably could have used for the accounting estimate in the current period or the changes in the accounting estimates from period to period could have a material impact on the Corporation's financial condition or results of operations. Accounting policies related to the allowance for credit losses are considered to be critical because they are highly dependent on subjective or complex judgments, assumptions and estimates by management.

The allowance for credit losses is a reserve established through a provision for credit losses charged to expense, which represents management's best estimate of probable losses that are inherent in the existing loan portfolio as of the balance sheet date. The allowance includes amounts calculated in accordance with FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" as amended by FASB Statement No. 118, and amounts determined in accordance with FASB Statement No. 5 "Accounting for Contingencies."

The Corporation's methodology for assessing the appropriateness of the allowance for credit losses consists of several key elements including a specific allowance for primary watch list classified loans, a formula allowance based on historical trends and an allowance for special circumstances. These key elements are described in detail in the "Statement of Accounting Policies" in NOTE 1 to the "Consolidated Financial Statements." The Corporation also maintains an unallocated allowance to cover any factors or conditions that may cause a credit loss but are not specifically identifiable and to account for imprecision. These factors include (1) delays in obtaining information, including unfavorable information about a borrower's financial condition and (2) changes in the composition of the loan portfolio that may reduce the correlation between historical loss and delinquency statistics used to establish allocation estimates and credit losses inherent to the current portfolio.

Results of Operations

Net income was $53.3 million in 2003, an increase of $9.8 million from the 2002 results of $43.5 million. This compared to $50.2 million that was registered in 2001.

The change in net income for the 2003 period reflected an increase in security gains compared to the corresponding period of 2002 and a gain on the sale of two branches in the 2003 period. In addition, the effects of restructuring costs and a litigation settlement negatively impacted net income for 2002. The restructuring charges consisted principally of severance amounts paid to employees as part of the plan to consolidate the multiple bank charters and develop the First Commonwealth brand and identity for all of the financial services subsidiaries. Payments to retiring directors as part of the realignment for the Corporation's new vision on corporate governance were also included in restructuring charges. The litigation settlement related to a lender liability action filed in 1994 against one of the

Corporation's subsidiary banks and followed an adverse pre-trial judgment by the trial judge on procedural grounds. A partial recovery from insurance for the claim related to the litigation settlement was received in 2003.

In addition to the restructuring and litigation expenses that were incurred during 2002, the decrease in net income from the 2001 period to the 2002 period included a decrease in security gains.

Diluted earnings per share was $0.90 for 2003 compared to $0.74 and $0.86 for 2002 and 2001, respectively. Return on average assets was 1.12% and return on equity was 12.95% during 2003 compared to 0.96% and 11.09%, respectively for 2002 and 1.11% and 13.85%, respectively for 2001.

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

	2003 vs. 2002	2002 vs. 2001
Net income per share, prior year	$ 0.74	$ 0.86
Increase (decrease) from changes in:		
Net interest income	(0.18)	0.16
Provision for credit losses	(0.01)	(0.01)
Security transactions	0.09	(0.05)
Insurance commissions	(0.01)	0.01
Income from bank owned life insurance	(0.01)	0.00
Service charges on deposits	0.02	0.00
Sale of branches	0.05	(0.01)
Other income	0.02	(0.01)
Salaries and employee benefits	(0.04)	(0.05)
Occupancy and equipment costs	(0.01)	(0.01)
Outside data processing expense	0.00	0.02
Goodwill amortization	0.00	0.02
Litigation settlement	0.15	(0.14)
Restructuring charges	0.10	(0.10)
Rebranding costs	0.03	(0.03)
Other operating expenses	0.03	(0.03)
Applicable income taxes	(0.07)	0.11
Net income per share	$ 0.90	$ 0.74

Net Interest Income

Net interest income, the engine that powers revenue growth for the Corporation, is defined as the difference between income on earning assets and the cost of funds supporting those assets. Net interest income declined to $143.5 million in 2003 compared to $152.9 million in 2002 and $141.7 million in 2001. Both interest income and interest expense declined compared to 2002 levels primarily as a result of the dramatic decrease in interest rates that began in 2001 and continued through 2002 into 2003. During this unparalleled period of low interest rates, the Corporation, as well as the financial services industry in general, has been challenged by margin compression, as the cost of funds has not declined in the same magnitude or at the same pace as asset yields. 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, 2003:

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

	2003			2002			2001		
	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	**$ 1,289**	**$ 13**	**1.03%**	$ 1,785	$ 31	1.74%	$ 1,842	$ 70	3.81%
Tax free investment securities	**226,780**	**10,561**	**7.16**	198,687	9,520	7.37	197,544	9,534	7.42
Taxable investment securities	**1,605,191**	**68,754**	**4.28**	1,495,824	86,110	5.76	1,527,181	96,622	6.33
Federal funds sold	**358**	**4**	**1.05**	359	6	1.72	9,521	492	5.17
Loans, net of unearned income (b)(c)	**2,640,935**	**164,441**	**6.46**	2,597,862	179,901	7.13	2,548,596	202,173	8.11
Total interest-earning assets	**4,474,553**	**243,773**	**5.71**	4,294,517	275,568	6.66	4,284,684	308,891	7.43
Noninterest-earning assets:									
Cash	**66,614**			69,735			72,806		
Allowance for credit losses	**(36,172)**			(34,813)			(34,078)		
Other assets	**233,040**			211,302			198,051		
Total noninterest-earning assets	**263,482**			246,224			236,779		
Total Assets	**$ 4,738,035**			$ 4,540,741			$ 4,521,463		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits (d)	**$ 457,327**	**$ 1,699**	**0.37%**	$ 416,184	$ 3,410	0.82%	$ 388,495	$ 7,039	1.81%
Savings deposits (d)	**792,755**	**7,028**	**0.89**	727,996	9,375	1.29	684,298	16,061	2.35
Time deposits	**1,524,974**	**51,373**	**3.37**	1,592,585	65,787	4.13	1,728,056	95,065	5.50
Short-term borrowings	**554,133**	**6,755**	**1.22**	339,908	6,029	1.77	300,173	11,227	3.74
Long-term debt	**594,383**	**33,386**	**5.62**	670,258	38,072	5.68	663,063	37,778	5.70
Total interest-bearing liabilities	**3,923,572**	**100,241**	**2.55**	3,746,931	122,673	3.27	3,764,085	167,170	4.44
Noninterest-bearing liabilities and capital:									
Noninterest-bearing demand deposits (d)	**380,772**			380,878			368,983		
Other liabilities	**22,241**			20,493			26,008		
Shareholders' equity	**411,450**			392,439			362,387		
Total noninterest-bearing funding sources	**814,463**			793,810			757,378		
Total Liabilities and Shareholders' Equity	**$ 4,738,035**			$ 4,540,741			$ 4,521,463		
Net Interest Income and Net Yield on Interest-Earning Assets		**$ 143,532**	**3.47%**		$ 152,895	3.80%		$141,721	3.53%

(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.

Earning assets yields, on a tax-equivalent basis, declined 95 basis points (0.95%) during 2003 to 5.71% from 6.66% registered in 2002, after decreasing from 7.43% in 2001. The cost of funds for 2003 dropped 72 basis points (0.72%) below 2002 costs of 3.27%, after decreasing 117 basis points (1.17%) from 2001 costs of 4.44%. Average earning assets were $4,474.6 million and average interest-bearing liabilities were $3,923.6 million for 2003, compared to $4,294.5 million and $3,746.9 million, respectively in 2002. 2002 averages were basically flat when compared to 2001 averages in both components.

Interest and fees on loans declined $15.5 million for 2003 compared to 2002 after declining $22.3 million for 2002 compared to 2001 levels. The decreases are primarily the result of declining yields in a lower interest rate environment. Tax-equivalent loan yields fell 67 basis points (0.67%) during 2003 to 6.46% from 7.13% after a decline of 98 basis points (0.98%) during 2002 from the 2001 levels. Installment loan yields fell 92 basis points (0.92%) and the yields on home equity lines of credit declined 81 basis points (0.81%) compared to the prior year.

The increase in average loan volumes was not enough to offset the reduced interest income caused by declining yields. During 2003, the Corporation took advantage of the lower interest rate cycle and continued to change the mix of the loan portfolio. Average mortgage loans declined during 2003 as consumers refinanced their loans at near record levels. The Corporation continued to offer competitive mortgage loans but generally sold them immediately after origination along with the related servicing rights. The Corporation has recently started to retain fixed rate mortgages with maturities of 15

years or less as well as adjustable rate mortgages. Average commercial and municipal loans offset the decline in 1-4 family mortgage loans and grew $142.9 million, primarily in shorter term and variable rate lending. In addition, 2003 included increases in average installment loans of $41.4 million over 2002 levels. The Corporation has continued to capitalize on lending opportunities with small to mid-sized commercial borrowers, including loans generated through its preferred Small Business Administration ("SBA") lender status. The Corporation has consistently been one of the top small business lenders in Pennsylvania.

Interest income on investments declined $16.3 million for 2003 compared to 2002 primarily due to interest rate decreases. Interest rate decreases were also the primary cause of the decline of $10.5 million in interest income on investments in 2002 compared to 2001 levels. Yields on investments for 2003 continued to decline, falling to 4.64% compared to 5.95% for 2002 and 6.45% for 2001. As with the loan category, the increase in average investment security volumes was not enough to offset the reduced interest income caused by declining yields. All categories of interest income on investments were negatively impacted by interest rate changes with the largest decline being registered in the U.S. government agency category, declining $20.4 million due to interest rates declining 162 basis points (1.62%) for 2003 compared to 2002. This decline was partially offset by an increase of $10.4 million in interest income on U.S. government agency securities as a result of average volume increases from 2003 to 2002. Prepayment speeds of mortgage backed securities ("MBS") continued to accelerate in 2003 as interest rates continued to decline. Interest rate changes have a direct impact on prepayment speeds. As interest rates increase, prepayments tend to decline and average lives of MBS increase. As interest rates decrease, prepayment speeds tend to increase and average lives of MBS decline, which accelerates the amount of premium amortization that is realized, further reducing the yields in current periods. Using computer simulation modeling, 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 dropped $18.5 million for 2003 compared to 2002 primarily as result of decreases due to interest rates of $16.9 million. The Corporation also registered decreases in interest expense of $1.6 million due to declines in average volumes of deposits in 2003 compared to 2002. The rate on savings deposits fell 40 basis points (0.40%) resulting in a decrease to interest expense of $3.2 million for 2003 compared to 2002, while the rate on time deposits for 2003 also declined, down 76 basis points (0.76%), compared to 2002 resulting in a decrease to interest expense of $11.6 million. The deposit mix changed in 2003 as clients registered a preference for savings products, which jumped $64.8 million or 8.9%, while time deposits dropped $67.6 million or 4.2% due to continued economic uncertainties. Average interest-bearing demand deposit balances for 2003 also advanced, up $41.1 million over 2002 balances. During its management of deposit levels and mix, the Corporation continues to evaluate the cost of time deposits compared to alternative funding sources as it balances its goals of providing clients with the competitive rates they are looking for while also minimizing the Corporation's cost of funds.

Interest expense on short-term borrowings rose $726 thousand during 2003 primarily as a result of volume increases of $3.8 million which were partially offset by rate decreases of $3.1 million. Average short-term borrowings rose by $214.2 million for 2003 compared to 2002 while the cost of short-term borrowings fell by 55 basis points (0.55%) compared to the prior year. All categories of short-term borrowing costs declined from year-to-year. The increase in short-term borrowings is due in part to $100 million of long-term debt that matured during the fourth quarter of 2002 and was replaced with short-term borrowings. In addition, the increase in short-term borrowings can be attributed to an ALCO strategy implemented to mitigate the risk of further declines in net interest income resulting from a low or declining interest rate environment. The increase in short-term borrowings funded the purchase of U.S. government agency securities maturing in approximately 3.5 years.

Interest expense on long-term debt declined $4.7 million for 2003 compared to the 2002 period as decreases due to volume of $4.3 million were further reduced by decreases due to rate of $376 thousand. Average long-term debt for 2003 decreased by $75.9 million compared to 2002. This was due in part to the $100 million of long-term debt that matured during the fourth quarter of 2002 that was replaced by short-term borrowings. Long-term debt includes additional subordinated debentures in the amount of $30.9 million, which were issued during 2003, bearing an adjustable interest rate based upon the three-month LIBOR and maturing in 30 years. The proceeds will be used by the Corporation to partially fund the pending acquisition of GA Financial, Inc. ("GAF"). Refer to NOTE 17 for further discussion of subordinated debentures that are included in long-term debt.

Net interest margin (net interest income, on a tax-equivalent basis as a percentage of average earning assets) declined to 3.47% for 2003, a decrease of 33 basis points (0.33%) compared to 2002. The year-to-year decrease in the margin was due to asset yields declining more quickly than the cost of funds as interest rates fell to historic lows. Continued pressure on net interest income is anticipated by the Corporation, despite active management of interest rate risk. The Corporation's use of computer simulation to manage interest rate risk is described in the "Interest Sensitivity" section of this discussion.

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)

	2003 Change from 2002			2002 Change from 2001		
	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	**$ (18)**	**$ (9)**	**$ (9)**	$ (39)	$ (2)	$ (37)
Securities	**(16,315)**	**8,367**	**(24,682)**	(10,526)	(1,950)	(8,576)
Federal funds sold	**(2)**	**-0-**	**(2)**	(486)	(473)	(13)
Loans	**(15,460)**	**3,070**	**(18,530)**	(22,272)	3,995	(26,267)
Total interest income	**(31,795)**	**11,428**	**(43,223)**	(33,323)	1,570	(34,893)
Interest-bearing liabilities:						
Deposits	**(18,472)**	**(1,622)**	**(16,850)**	(39,593)	(5,925)	(33,668)
Short-term borrowings	**726**	**3,799**	**(3,073)**	(5,198)	1,486	(6,684)
Long-term debt	**(4,686)**	**(4,310)**	**(376)**	294	410	(116)
Total interest expense	**(22,432)**	**(2,133)**	**(20,299)**	(44,497)	(4,029)	(40,468)
Net interest income	**$ (9,363)**	**$ 13,561**	**$ (22,924)**	$ 11,174	$ 5,599	$ 5,575

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

Provision for Credit Losses

The provision for credit losses is 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 $12.8 million in 2003 compared to $12.2 million in 2002 and $11.5 million in 2001. The allowance for credit losses was $37.4 million at December 31, 2003, which represents a ratio of 1.42% of average loans outstanding, slightly up from the 1.33% reported at December 31, 2002.

Net charge-offs for 2003 rose $1.1 million over 2002 levels. The most significant components of this year-to-year change were increases in net charge-offs in the following categories: commercial loans not secured by real estate (up $579 thousand), loans secured by 1-4 family real estate (up $1.1 million) and construction loans (up $381 thousand). These increases in net charge-offs were partially offset by decreases in commercial real estate loans of $204 thousand, loans to individuals of $683 thousand and lease financing receivables of $103 thousand. Net charge-offs as a percent of average loans outstanding at December 31, 2003 were 0.49% compared to 0.46% and 0.43% at December 31, 2002 and 2001, 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, 2003:

Summary of Loan Loss Experience
(Dollar Amounts in Thousands)

	2003	2002	2001	2000	1999
Loans outstanding at end of year	**$ 2,824,882**	$ 2,608,634	$ 2,567,934	$ 2,490,827	$ 2,500,059
Average loans outstanding	**$ 2,640,935**	$ 2,597,862	$ 2,548,596	$ 2,503,036	$ 2,408,450
Allowance for credit losses:					
Balance, beginning of year	**$ 34,496**	$ 34,157	$ 33,601	$ 33,539	$ 32,304
Addition as a result of acquisition	**3,109**	-0-	-0-	-0-	-0-
Loans charged off:					
Commercial, financial and agricultural	**6,424**	6,085	3,297	4,335	1,821
Loans to individuals	**3,288**	4,040	4,199	5,521	6,126
Real estate-construction	**384**	3	-0-	-0-	-0-
Real estate-commercial	**1,111**	1,315	2,300	130	427
Real estate-residential	**3,172**	2,065	1,818	874	1,035
Lease financing receivables	**316**	424	606	407	187
Total loans charged off	**14,695**	13,932	12,220	11,267	9,596
Recoveries of loans previously charged off:					
Commercial, financial and agricultural	**1,047**	1,287	456	406	290
Loans to individuals	**641**	710	757	826	1,057
Real estate-construction	**-0-**	-0-	-0-	-0-	-0-
Real estate-commercial	**-0-**	-0-	-0-	-0-	-0-
Real estate-residential	**17**	46	49	42	33
Lease financing receivables	**-0-**	5	19	25	1
Total recoveries	**1,705**	2,048	1,281	1,299	1,381
Net loans charged off	**12,990**	11,884	10,939	9,968	8,215
Provision charged to expense	**12,770**	12,223	11,495	10,030	9,450
Balance, end of year	**$ 37,385**	$ 34,496	$ 34,157	$ 33,601	$ 33,539
Ratios:					
Net charge-offs as a percentage of average loans outstanding	**0.49%**	0.46%	0.43%	0.40%	0.34%
Allowance for credit losses as a percentage of average loans outstanding	**1.42%**	1.33%	1.34%	1.34%	1.39%

Noninterest Income

Net securities gains increased $5.2 million during 2003 to $5.9 million from the $642 thousand reported in 2002 and compared to $3.3 million in 2001. The securities gains during the 2003 period resulted primarily from the sales of Pennsylvania bank stocks with book values of $7.6 million and fixed rate corporate bonds classified as securities "available for sale" with book values of $35 million. The corporate bonds sold during 2003 had an average remaining life of one year, and the proceeds were reinvested in adjustable rate trust preferred securities with maturities of 30 years and mortgage backed securities with an average life of 3.6 years. This reinvestment strategy was initiated to partially mitigate the Corporation's exposure to low and declining interest rates. The securities gains during 2002 resulted primarily from the sales of Pennsylvania bank stocks, U.S. Treasury securities and fixed rate corporate bonds classified as securities "available for sale" with book values of $1.1 million, $1.5 million and $3.0 million, respectively. 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.

Trust income of $5.1 million for 2003 was relatively flat compared to 2002 and 2001 where the reported amount was $5.0 million for both years. Although fee revenue continues to be negatively impacted due to low market values, the market value of the assets managed has started to rebound during the fourth quarter of 2003. The enhanced referral programs and integrated growth plans for financial affiliates continue to help offset this trend. The Corporation's continued success in building relationships with commercial clients provides fee based affiliates with additional sales opportunities through the Total Solutions Financial Management ("TSFM") process. This strategy combines products, services and professional staff from the Corporation's trust, insurance, financial advisory and banking affiliates and partners them in providing comprehensive financial services offerings.

Service charges on deposits are the most significant component of noninterest income and increased $1.5 million for 2003 compared to 2002. Increases in nonsufficient funds fees ("NSF") of $2.1 million helped to pace the year-to-year rise. NSF charges were partially offset by decreases in account maintenance fees on deposit accounts of $424 thousand compared to 2002 levels. Standardization of service fee

routines accomplished during conversion of the Corporation's deposit system during 2001 and added emphasis on collection of fees had positive effects on fee revenue for 2003 and 2002. Management strives to implement reasonable fees for services and closely monitors collection of those fees.

The 2003 period included a $3.0 million gain which occurred when First Commonwealth Bank, a wholly-owned subsidiary of the registrant, sold two of its branch offices. The sale included $29.2 million in deposit liabilities and $4.4 million in loans associated with the two offices. The 2001 period included a $777 thousand gain on the sale of one branch. The sale included $10.4 million in deposit liabilities.

Insurance commissions decreased $326 thousand for 2003 after increasing $439 thousand for 2002 from 2001 commissions of $3.2 million. Decreases in 2003 were primarily due to decreases in annuity commissions. Insurance commissions for 2002 included increases in personal lines, annuities and employee benefit plans compared to 2001. As part of the previously discussed TSFM process, the Corporation's insurance subsidiary will continue to have expanded opportunities to meet the insurance needs of commercial clients. In addition, the Corporation has developed "FOCUS", a financial planning tool designed to help clients prioritize and assess their financial needs. The "FOCUS" concept results in a systematic approach covering a wide range of personal financial goals including appropriate insurance coverage. This category should also be favorably impacted by the integration of First Commonwealth Financial Advisors into these advisory models.

Income from bank owned life insurance was $4.3 million for 2003 compared to $4.7 million for 2002 and compared to $4.6 million for 2001. The 2002 period included an additional investment in bank owned life insurance of $5.0 million and the 2001 period included an additional investment of $15.0 million.

Other income for 2003 was $10.2 million, representing a $1.2 million increase compared to 2002, which followed a $596 thousand decrease from the $9.6 million achieved in 2001. The increase in other income for 2003 over 2002 levels includes increases in STAR interchange fees and income from the increase in cash surrender value of split dollar life insurance of $629 thousand and $248 thousand, respectively. Other income for 2002 included an increase in interchange income of $164 thousand. The 2001 period included a gain related to the sale of a block of 30 year mortgages as well as a gain from the termination of a subsidiary's defined benefit pension plan.

Noninterest Expense

Total other expenses for 2003 decreased $13.6 million to $112.7 million compared to $126.3 million in 2002. The 2002 amount represented an increase of $20.4 million compared to $105.9 million reported in 2001. The decrease in other expenses for 2003 and the increase in other expenses for 2002 were primarily the result of nonrecurring charges that were incurred during 2002 for the previously described litigation settlement and corporate restructuring of $8.0 million and $6.1 million, respectively. These restructuring charges resulted from the merger of the Corporation's banking subsidiaries, Southwest Bank and First Commonwealth Bank, which occurred in October 2002. Because of this merger, there was a consolidation of support functions with some staff positions being eliminated. The personnel within the branches and relationship managers in corporate services continued to serve in the same capacity in order to ensure a smooth transition. Also, related to the merger, the structures of all of the Boards of Directors and Board committees for the Corporation were realigned. As a result of these activities, restructuring charges of $6.1 million are reported on the income statement for the 2002 period. Ongoing savings from the restructuring were reflected in the 2003 period. Other charges incurred during 2002 as a part of the restructuring, related principally to writing off obsolete signs and supplies due to the name change under one charter and amounted to $420 thousand. Also impacting other operating expense for the period were $1.8 million of costs incurred principally in the fourth quarter of 2002 associated with development of the First Commonwealth brand. Total noninterest expense as a percent of average assets was 2.38% for 2003 compared to 2.76% for 2002 and 2.32% for 2001.

Employee costs were $61.1 million in 2003, representing 1.29% of average assets compared to $58.1 million and 1.28% of average assets for 2002. Employee costs for 2001 were $54.5 million and 1.21% of average assets. Salary costs for the 2003 period increased $1.6 million compared to 2002, while salary costs for the 2002 period increased $2.2 million compared to 2001 levels. Employee benefit costs rose $1.4 million for 2003 compared to 2002 and also rose $1.4 million for 2002 compared to 2001. Hospitalization costs continue to reflect the largest increases in employee benefit costs with increases of $1.1 million or 23.1% in 2003 and $943 thousand or 24.7% in 2002. The Corporation strives to provide quality employee benefits while effectively managing costs.

Net occupancy expense increased $706 thousand during 2003 compared to expenses of $6.8 million during 2002 and $6.5 million for 2001. The 2003 period included increases in building repairs and maintenance, net rental expense and utilities compared to 2002 costs. Much of these increases were due to increased utility costs and snow removal expenses resulting from the harsh winter. The 2003 period also included an increase in the amortization of the purchase accounting adjustments related to premises of $328 thousand over the 2002 period. An adjustment of $291 thousand was taken during the 2003 period for the write-off of the remaining purchase accounting adjustment for three branch offices that were closed during 2003. These branch offices were closed and their clients are served at nearby existing branch offices. The Corporation continues to actively evaluate its branch delivery network to optimize client service in existing branch offices and to

continue expansion into growth markets. The execution of these initiatives may continue to impact occupancy and other expenses in future periods. Increases in building insurance, building rental costs and building repairs and maintenance in 2002 were only partially offset by declines in most other building expense categories.

Furniture and equipment expenses increased $126 thousand to $10.1 million in 2003. Increases were largely due to continued increases in depreciation expense. Furniture and equipment expenses of $10.0 million for 2002 reflected increases of $920 thousand over 2001 levels resulting primarily from increases in depreciation on computer software and software maintenance offset in part by reduced equipment lease expense. The 2002 period was also impacted by a full year of depreciation as well as maintenance charges on systems that were placed in service during the later part of 2001. The systems were replacements of software that is utilized by the Corporation's data processing subsidiary to process loan and deposit accounts. The new application software has enabled the Corporation's banking subsidiary to provide enhanced products and services, including internet banking. Technology advances continue to drive the ability of financial services companies to provide expanded services through traditional channels as well as nontraditional and emerging delivery systems to meet the changing needs of our clients.

Outside data processing expense increased $396 thousand for the 2003 period to $2.5 million compared to $2.1 million for the 2002 period and $3.3 million for 2001. This category was positively impacted in 2002 by the conversion of Southwest Bank from outsourced processing to that provided by a subsidiary of the Corporation. This category will be unfavorably impacted by the acquisition of PFC until the systems, which are processed through an outsourced processing vendor, are converted to the systems that are provided by a subsidiary of the Corporation. These conversions are scheduled to be completed by the end of the second quarter of 2004. Outside data processing costs are managed by the Corporation's data processing subsidiary. Its needs are evaluated based on technology, efficiency and cost considerations.

Other operating expenses decreased $3.4 million to $27.7 million for 2003. Other operating expenses for 2002 increased $2.9 million compared to $28.2 million for 2001. The 2003 period included decreases in other professional fees and services, advertising, expenses related to training and seminars, telephone and loss on the sale of other assets (primarily vehicles previously leased) in the amounts of $1.4 million, $637 thousand, $428 thousand, $420 thousand and $402 thousand, respectively, compared to 2002 costs. Directors' fees for the 2003 period reflected decreases of $349 thousand resulting from the restructuring of the Corporation's Boards of Directors and committees during 2002.

The 2002 period includes increased losses on sale of assets of $472 thousand, due primarily to the loss on sale of vehicles previously leased, compared to 2001. Other professional fees in 2002 rose by $822 thousand over 2001 and included consulting fees related to implementation of the Corporation's "Balanced Scorecard" performance measurement system, enhancements to product and customer profitability systems, corporate restructuring and common branding and identity. Consultants were also utilized to assist in the ongoing efforts to develop a world class sales culture and to generate new deposit dollars and relationships. Corporate restructuring and movement toward a sales culture also impacted the decision to have employee benefit plans reviewed by outside specialists during 2002. Advertising and promotion expenses rose a combined $2.3 million for the 2002 period due partially to expenditures related to the $1.8 million launch of the new corporate brand and identity. This exciting campaign was designed to educate and build enthusiasm among current as well as potential clients and the communities we serve. Also impacting these categories were expenses incurred in the successful marketing campaign for free checking products introduced during 2002. These products are expected to have a favorable impact on deposit growth, interest expense and service charge revenue in future periods as well as providing potential add-on sales of other financial products and services.

Income tax expense was $13.3 million during 2003 representing an increase of $4.4 million above the 2002 amount of $8.9 and compared to $15.3 million in 2001. The Corporation's effective tax rate was 19.9% for 2003 compared to 17.0% for 2002 and 23.3% for 2001. Although the 2003 effective tax rate was an increase over the 2002 rate, it was still favorable to the statutory tax rate and the 2001 effective rate. The Corporation's 2003 effective tax rate continues to be favorably impacted by tax-free municipal income. Pretax income in the 2002 period was reduced by the $8.0 million litigation settlement as well as the $6.1 million restructuring charges. The decline in pretax income from the 2001 period allowed the effect of nontaxable income to have a greater impact on the effective tax rate in 2002 than in 2001.

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes the Corporation's contractual obligations to make future payments as of December 31, 2003. Payments for borrowings do not include interest. Payments related to operating leases are based on actual payments specified in the underlying contracts.

(Dollar Amounts In Thousands)

	Footnote Reference	1 Year or Less	After 1 But Within 3 Years	After 3 But Within 5 Years	After 5 Years	Total
Federal Home Loan Bank advances	18	$ 22,152	$ 21,392	$ 458,886	$ 175,658	$ 678,088
Repurchase agreements	18	-0-	-0-	20,000	-0-	20,000
Subordinated debentures	17	8,292	-0-	-0-	67,012	75,304
ESOP loan	18	1,477	1,136	-0-	-0-	2,613
Operating leases	14	2,093	3,856	3,146	5,584	14,679
Total contractual obligations		$ 34,014	$ 26,384	$ 482,032	$ 248,254	$ 790,684

The preceding table excludes unamortized premiums and discounts on Federal Home Loan Bank advances because these premiums and discounts do not represent future cash obligations. The preceding table also excludes the Corporation's cash obligations upon maturity of certificates of deposit whose maturities are described in NOTE 15 to the "Consolidated Financial Statements." Subordinated debentures in the amount of $8,292 thousand previously issued by PFC and due in 2028 were called and subsequently paid in full in January 2004 and are included as due within 1 year above.

The following table summarizes the Corporation's off-balance sheet commitments as of December 31, 2003. Commitments to extend credit and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

(Dollar Amounts In Thousands)

	Footnote Reference	Amount
Commitments to extend credit	13	$ 620,403
Standby letters of credit	13	28,836
Total lending-related commitments		$ 649,239

Commitments to extend credit include unfunded loan commitments as well as the undrawn portions of revolving and closed-end lines of credit as of December 31, 2003. The contractual provisions of these commitments normally include fixed expiration dates or termination clauses, specific interest rates and clauses indicating that funding is contingent upon borrowers maintaining stated credit standards at the time of loan funding.

Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a client to a third party. In the event the client does not perform in accordance with the terms of the agreement with the third party, the Corporation would be required to fund the commitment. The maximum potential amount of future payments the Corporation could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Corporation would be entitled to seek repayment from the client. The Corporation's policies generally require that standby letter of credit arrangements contain security and debt convenants similar to those contained in loan agreements.

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 Corporation's banking subsidiary is a member 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. In addition to the previously described funding sources, the Corporation also has the ability to access the capital markets.

Liquidity risk stems from the possibility that the Corporation may not be able to meet current or future financial obligations, or the Corporation may become overly reliant on alternative funding sources. The Corporation maintains a liquidity risk management policy to manage this risk. This policy identifies the primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements based on board approved limits. The policy also includes a liquidity contingency plan to address funding needs to maintain liquidity under a variety of business conditions. The Corporation's liquidity position is monitored by the Asset/Liability Management Committee ("ALCO").

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 $244.2 million in 2003 and included increases in savings and

noninterest-bearing demand deposits, which were partially offset by decreases in time deposits. Noncore deposits, which are time deposits in denominations of $100 thousand or more, represented 12.1% of total deposits at December 31, 2003. Noncore deposits decreased by $91.0 million in 2003 and $7.6 million in 2002 due in part to changes in public funds balances.

Although the Corporation's primary source of funds remains traditional deposits from within the communities served by its banking subsidiary, 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, 2003, 2002 and 2001 had remaining maturities as follows:

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

	2003		2002		2001	
	Amount	**Percent**	Amount	Percent	Amount	Percent
Remaining Maturity:						
3 months or less	**$ 77,603**	**19%**	$ 97,862	20%	$ 133,017	27%
Over 3 months through 6 months	**50,132**	**13**	54,758	11	57,222	11
Over 6 months through 12 months	**69,239**	**17**	114,596	24	89,436	18
Over 12 months	**201,742**	**51**	222,486	45	217,643	44
Total	**$ 398,716**	**100%**	$ 489,702	100%	$ 497,318	100%

Loans, net of unearned income and the allowance for credit losses, increased $213.4 million during 2003 as increases were noted in all categories with the exception of leases. Most notable were increases in commercial loans secured by real estate of $108.6 million and increases in residential loans secured by real estate of $82.1 million compared to year-end 2002. Net loans in the amount of $245.8 million were acquired with the BankPittsburgh acquisition.

Below is a schedule of loans by classification for the five years ended December 31, 2003:

Loans by Classification
(Dollar Amounts in Thousands)

	2003		2002		2001		2000		1999	
	Amount	**Percent**	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial, financial, agricultural and other	**$ 655,740**	**23%**	$ 633,955	24%	$ 529,300	21%	$ 443,618	18%	$ 417,300	16%
Real estate-construction	**27,063**	**1**	20,998	1	14,727	1	37,146	2	41,734	2
Real estate-commercial	**771,861**	**27**	663,220	26	638,576	25	560,066	22	495,789	20
Real estate-residential	**821,159**	**29**	739,018	28	849,787	33	932,915	37	980,506	39
Loans to individuals	**521,481**	**19**	505,139	19	473,515	18	450,154	18	502,465	20
Net leases	**28,033**	**1**	47,110	2	63,326	2	68,975	3	65,893	3
Gross loans and leases	**2,825,337**	**100%**	2,609,440	100%	2,569,231	100%	2,492,874	100%	2,503,687	100%
Unearned income	**(455)**		(806)		(1,297)		(2,047)		(3,628)	
Total loans, and leases net of unearned income	**$2,824,882**		$2,608,634		$2,567,934		$2,490,827		$2,500,059	

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, 2003, securities available for sale had an amortized cost of $1,946 million and an approximate fair value of $1,969 million. Gross unrealized gains were $32.9 million and gross unrealized losses were $9.6 million.

Based upon the Corporation's historical ability to fund liquidity needs from other sources, the current available for sale portfolio is deemed more than adequate, as the Corporation does not anticipate a need to liquidate the investments until maturity. A schedule of the contractual maturity distribution of securities held to maturity and securities available for sale at December 31, 2003, follows:

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	$ 10,003	$ 4,035	$ 8,990	$ 23,028	6.78%
After 1 but within 5 years	2,686	13,329	405	16,420	7.04
After 5 but within 10 years	5,165	29,362	-0-	34,527	7.32
After 10 years	289	29,990	-0-	30,279	7.06
Total	$ 18,143	$ 76,716	$ 9,395	$ 104,254	7.08

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	$ 31,317	$ 1,468	$ 21,055	$ 53,840	3.81%
After 1 but within 5 years	280,450	7,010	41,052	328,512	2.84
After 5 but within 10 years	405,627	12,114	-0-	417,741	3.80
After 10 years	769,497	136,198	240,067	1,145,762	4.65
Total	$ 1,486,891	$ 156,790	$ 302,174	$ 1,945,855	4.14

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

Interest Sensitivity

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, currency exchange rates or equity prices. The Corporation's market risk is composed primarily of interest rate risk. Interest rate risk results principally from timing differences in the repricing of assets and liabilities, changes in the relationship of rate indices and the potential exercise of freestanding or embedded options.

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, can be informative.

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") exceed 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.

The cumulative gap at the 365-day repricing period was negative in the amount of $809 million or 15.59% of total assets at December 31, 2003. A positive gap tends to indicate that earnings will be impacted favorably if interest rates rise during the period and negatively when interest rates fall during the time period. A negative gap tends to indicate that earnings will be affected inversely to interest rate changes. In other words, as interest rates fall, a negative gap should tend to produce a positive effect on earnings and when interest rates rise, a negative gap should tend to affect earnings negatively.

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

The following table lists the amounts and ratios of assets and liabilities with rates or yields subject to change within the periods indicated as of December 31, 2003 and 2002:

(Dollar Amounts in Thousands)

	2003			
	0-90 Days	**91-180 Days**	**181-365 Days**	**Cumulative 0-365 Days**
Loans	**$ 1,057,021**	**$ 178,006**	**$ 291,352**	**$ 1,526,379**
Investments	**241,163**	**116,979**	**189,610**	**547,752**
Other interest-earning assets	**5,362**	**-0-**	**-0-**	**5,362**
Total interest-sensitive assets	**1,303,546**	**294,985**	**480,962**	**2,079,493**
Certificates of deposit	**325,957**	**242,706**	**249,361**	**818,024**
Other deposits	**1,413,069**	**-0-**	**-0-**	**1,413,069**
Borrowings	**634,878**	**1,407**	**21,290**	**657,575**
Total interest-sensitive liabilities	**2,373,904**	**244,113**	**270,651**	**2,888,668**
Gap	**$ (1,070,358)**	**$ 50,872**	**$ 210,311**	**$ (809,175)**
ISA/ISL	**0.55**	**1.21**	**1.78**	**0.72**
Gap/Total assets	**20.63%**	**0.98%**	**4.05%**	**15.59%**

	2002			
	0-90 Days	91-180 Days	181-365 Days	Cumulative 0-365 Days
Loans	$ 962,398	$ 157,172	$ 295,273	$ 1,414,843
Investments	292,206	162,578	262,287	717,071
Other interest-earning assets	1,973	-0-	-0-	1,973
Total interest-sensitive assets	1,256,577	319,750	557,560	2,133,887
Certificates of deposit	354,625	170,687	263,882	789,194
Other deposits	1,172,538	-0-	-0-	1,172,538
Borrowings	469,735	905	1,483	472,123
Total interest-sensitive liabilities	1,996,898	171,592	265,365	2,433,855
Gap	$ (740,321)	$ 148,158	$ 292,195	$ (299,968)
ISA/ISL	0.63	1.86	2.10	0.88
Gap/Total assets	16.36%	3.27%	6.46%	6.63%

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, and as a result may not accurately predict the impact of changes in general levels of interest rates or net interest income. This is exemplified as the gap analysis shows the Corporation's earnings to be negatively impacted by rising rates, but computer modeling indicates that rising rates would have a favorable impact on earnings. 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 twelve-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 200 basis point (2.00%) movement upward or downward which cannot result in more than a 5.0% decline in net interest income when compared to the base case. The analysis at December 31, 2003, indicated that a 200 basis point (2.00%) increase in interest rates would increase net interest income by 56 basis points (0.56%) above the base case scenario and a 200 basis point (2.00%) decrease in interest rates would decrease net interest income by 671 basis points (6.71%) below the base case scenario over the next twelve months. While the 200 basis points (2.00%) declining rate scenario currently exceeds the -5.00% policy limit by 171 basis points (1.71%), it is recognized by the Corporation that this declining rate scenario is unrealistic in the current rate environment with the Federal funds rate at only 1.00%.

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 sales, asset and liability pricing and matched maturity funding. The ALCO strategies are established by the Corporation's senior management.

The Corporation entered into an interest rate swap transaction during the third quarter of 2003. The swap has a three-year maturity and involves hedging adjustable LIBOR based commercial loans with a receive-fixed and pay-floating interest rate swap of $25 million notional amount. The purpose of the swap was to reduce the Corporation's exposure to further declines in interest rates. The ALCO continues to evaluate the use of additional derivative instruments to protect against the risk of adverse price or interest rate movements on the values of certain assets and liabilities.

Another strategy aimed at reducing the Corporation's exposure to falling interest rates was implemented during 2003. U.S. government agency securities maturing in approximately 3.5 years were purchased with short-term borrowings. The amount of this transaction averaged approximately $138 million for the year.

Final loan maturities and rate sensitivities of the loan portfolio excluding consumer installment and mortgage loans and before unearned income at December 31, 2003, were as follows (Dollar Amounts in Thousands):

	Within One Year	One to 5 Years	After 5 Years	Total
Commercial and industrial	$ 207,848	$ 110,732	$ 85,942	$ 404,522
Financial institutions	0	115	300	415
Real estate-construction	8,486	739	17,838	27,063
Real estate-commercial	76,495	144,509	550,857	771,861
Other	31,105	15,264	204,434	250,803
Totals	$ 323,934	$ 271,359	$ 859,371	$1,454,664
Loans at fixed interest rate		98,360	245,636	
Loans at variable interest rates		172,999	613,735	
Totals		$ 271,359	$ 859,371	

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 and documentation. The principal factor used to determine potential borrowers' credit worthiness is business cash flows or consumer income available to service debt payments. Secondary sources of repayment, including collateral and guarantees, are frequently obtained.

The lending policy provides limits for individual and bank committee 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. The Corporation has 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 working capital, operations, 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 is expected from the operations of the subject real estate and is 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 the 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 credit worthiness is evaluated on the basis of ability to repay, stability of income sources and past credit history.

The Corporation maintains an allowance for credit losses at a level deemed sufficient to absorb losses which are inherent in the loan and lease portfolios at each balance sheet date. Management reviews the adequacy of the allowance on 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.

While the Corporation consistently applies the following comprehensive methodology and procedure described in NOTE 1 "Accounting Policies," allowance for credit loss methodologies incorporate management's current judgments about the credit quality of the loan portfolio as well as collection probabilities for problem credits. Although management considers the allowance for credit losses to be adequate based on information currently available, additional allowance for credit loss provisions may be necessary due to changes in management estimates and assumptions about asset impairment, information about borrowers that indicate changes in the expected future cash flows or changes in economic conditions. The allowance for credit losses and the provision for credit losses are significant elements of the Corporation's financial statements, therefore management periodically reviews the processes and procedures utilized in determining the allowance for credit losses to identify potential enhancements to these processes including development of additional management information systems to ensure that all relevant factors are appropriately considered in the allowance analysis. In addition, the Corporation maintains a system of internal controls which are independently monitored and tested by internal audit and loan review staff to ensure that the loss estimation model is maintained in accordance with internal policies and procedures as well as generally accepted accounting principals.

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. For analytical purposes, the following table sets forth an allocation of the allowance for credit losses at December 31 according to the categories indicated. Management feels the unallocated portion of the reserve is necessary due to the uncertain economic and geo-political environment and its impact on a variety of sectors such as health care and lodging. During 2003, the unallocated allowance was reduced due to an additional allocation to fourteen commercial loans. The increase in allocations to the commercial, industrial, financial, agricultural and real estate-commercial portfolios resulted from an increase in loan volumes in these categories and the BankPittsburgh acquisition within the metropolitan Pittsburgh market.

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

	2003	2002	2001	2000	1999
Commercial, industrial, financial, agricultural and other	**$ 10,739**	$ 7,856	$ 6,315	$ 6,263	$ 6,321
Real estate-construction	**330**	600	432	643	831
Real estate-commercial	**11,361**	7,201	9,808	9,064	7,675
Real estate-residential	**4,910**	5,294	7,379	10,211	9,928
Loans to individuals	**4,614**	3,035	3,845	4,938	5,131
Lease financing receivables	**202**	259	401	638	586
Unallocated	**5,229**	10,251	5,977	1,844	3,067
Total	**$ 37,385**	$ 34,496	$ 34,157	$ 33,601	$ 33,539
Allowance as percentage of average total loans	**1.42%**	1.33%	1.34%	1.34%	1.39%

While the allowance for credit losses as a percentage of average total loans outstanding increased from 1.33% in 2002 to 1.44% in 2003, the allowance for credit losses as a percentage of actual loans outstanding remained at 1.32% for both periods. The allowance as a percentage of average total loans outstanding for 2003 was impacted by the inclusion of BankPittsburgh loans since the acquisition.

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 are 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)

	2003	2002	2001	2000	1999
Loans on nonaccrual basis	**$ 12,459**	$ 23,450	$ 22,899	$ 10,698	$ 12,765
Past due loans	**10,586**	14,774	17,781	22,086	15,815
Renegotiated loans	**195**	207	832	2,263	62
Total nonperforming loans	**$ 23,240**	$ 38,431	$ 41,512	$ 35,047	$ 28,642
Nonperforming loans as a percentage of total loans	**0.82%**	1.47%	1.62%	1.41%	1.15%
Allowance as percentage of nonperforming loans	**160.86%**	89.76%	82.28%	95.87%	117.10%
Other real estate owned	**$ 1,866**	$ 1,651	$ 1,619	$ 1,661	$ 1,707
Gross income that would have been recorded at original rates	**$ 1,962**	$ 1,542	$ 1,422	$ 750	$ 724
Interest that was reflected in income	**1,185**	286	750	333	458
Net reduction to interest income due to nonaccrual	**$ 777**	$ 1,256	$ 672	$ 417	$ 266

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

Nonperforming loan levels at December 31, 2003 decreased $15.2 million compared to 2002 levels as nonaccrual loans and past due loans decreased by $11.0 million and $4.2 million, respectively. The decrease in nonaccrual loans was due to eight commercial loans that paid in full or were charged down and/or charged off. The largest improvement was related to a credit with a balance of $6.2 million at December 31, 2002 and bearing an 80% guaranty of a U.S. government agency. The credit was resolved in the fourth quarter of 2003 without any additional charge-off being recorded. A second credit, which was $3.2 million at year-end 2002, continues to be resolved through the liquidation of collateral and exercising other remedies. The balance outstanding at December 31, 2003 for this credit was $1.8 million, a decrease of $1.4 million from the prior year. While the final resolution of this credit is uncertain, management's estimate of the potential loss on this credit is reserved.

The decrease in past due loans for the 2003 period included decreases in all major categories with the most significant decreases in loans secured by residential real estate (down $2.5 million), loans secured by commercial real estate (down $607 thousand) and other commercial loans (down $839 thousand). The decrease in past due loans was due to successful collection strategies. The renegotiated loan category at December 31, 2003, included the one credit that was outstanding at the end of December 31, 2002. Interest income on nonaccrual loans increased for 2003 due to final resolution of several large credits that included collection of some interest income.

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. The Corporation has 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 bank and parent company. Credit risk is mitigated during the loan origination process through the use of sound underwriting policies and collateral requirements and its previously described committee structure. 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 stood at $430.9 million at December 31, 2003, a $29.6 million rise compared to December 31, 2002. Dividends declared reduced equity by $37.2 million during 2003 as

dividends were increased over 2002 levels. 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 adjustment to unearned ESOP shares in 2003 increased equity by $1.2 million. The market value adjustment to securities available for sale decreased equity by $10.7 million in 2003. Amounts paid to fund the discount on reinvested dividends reduced equity by $706 thousand. Proceeds from the issuance of treasury shares to provide for stock options exercised increased equity by $5.9 million during 2003, while the tax benefit related to the stock options increased equity by $535 thousand. Equity capital in 2003 was also impacted by the issuance of stock related to acquisitions from 2003 and 2002, which resulted in increases in the amounts of $17.0 million and $203 thousand, respectively.

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 27 to the "Consolidated Financial Statements" for an analysis of regulatory capital guidelines and the Corporation's capital ratios relative to these measurement standards.

Risk Management

In the normal course of business the Corporation assumes various types of risk. The Corporation has identified twenty-six standard risks which have been summarized into seven major risk categories. The seven major risk categories include credit risk, market risk, liquidity risk, compliance/legal risk, operational risk, reputation risk and strategic risk. Credit risk, market risk and liquidity risk are discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations section. The remaining major risk categories are defined as follows: compliance/legal risk— the risk rising from violations of, or noncompliance with laws, rules, regulations, prescribed practices, or ethical standards; operational risk— threat created by inadequate information systems, operational problems, weak internal control systems, fraud, or any other unforeseen catastrophes; reputation risk—the risk to earnings or capital arising from negative public opinion; and strategic risk—the risk arising from adverse business decisions or improper implementation of those decisions. These factors and others could impact the Corporation's business, financial condition and results of operation.

Corporate management has taken strong and wide-ranging actions to enhance the awareness of and proactively manage risk within the Corporation. In addition to establishing a comprehensive policy and procedure manual that is updated and regularly communicated throughout the Corporation, the Senior Vice President, Risk Management, an executive officer level position, oversees all aspects of the risk process. Our committee structure embraces a risk management culture, which begins with the Risk Committee that provides oversight and monitoring of key risk areas. The Risk Committee, which is chaired by the Senior Vice President, Risk Management, and has representation from all of the disciplines across the organization, meets to discuss and assess current and emerging risks as well as to identify solutions and mitigants. Credit quality and loan loss adequacy issues are addressed by the Credit Quality, Watch List and Loan Loss Reserve committees. Additional committees include Security, which is responsible for coordinating the security program; Privacy, which focuses on safeguarding client information; ALCO, which monitors interest rate and liquidity risks; and Disclosure, which evaluates internal controls regarding information utilized in certain regulatory reports, as well as reviewing those reports and the disclosure process to ensure that disclosures are timely, complete and accurate.

The Risk Department has specific procedures to analyze and quantify risks in the seven major risk categories. Gaps between inherent risks and mitigants are quantified and presented to the Risk Committee for their review. Management continually reviews the mitigants and controls to ensure their continuity. The Internal Audit Department validates the existence and effectiveness of the controls. Risk gaps are compiled to develop a risk rating, which is incorporated into the balanced scorecard measure and is reported to the Board of Directors. An analytical review of key indicators, both monetary and nonmonetary, as well as other current information that may become available through discussions with management serves as an early warning system to detect potential deteriorating internal controls. All significant new initiatives and products are subject to a risk assessment prior to being presented for implementation. An annual assessment of risk is also performed to identify potential threat areas to our computer systems. Our internal audit staff performs routine and consistent information technology reviews of identified risk areas, security measures and control processes.

With these processes in place the Corporation believes that its objective of establishing a risk culture that identifies, measures, controls and monitors events or actions that may adversely affect our organization has been achieved. Our goal is not to eliminate risk but to understand fully the risk the Corporation is assuming and appropriately manage those risks.

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 15,500. The table below sets forth the high and low sales prices per share and cash dividends declared per share for common stock of the Corporation.

Period	High Sale	Low Sale	Cash Dividends Per Share
2003			
First Quarter	$ 12.55	$ 11.50	$ 0.155
Second Quarter	$ 13.30	$ 11.57	$ 0.155
Third Quarter	$ 14.00	$ 12.60	$ 0.155
Fourth Quarter	$ 14.98	$ 13.15	$ 0.160

Period	High Sale	Low Sale	Cash Dividends Per Share
2002			
First Quarter	$ 14.00	$ 11.51	$ 0.150
Second Quarter	$ 14.12	$ 12.53	$ 0.150
Third Quarter	$ 13.37	$ 11.62	$ 0.150
Fourth Quarter	$ 12.35	$ 10.84	$ 0.155

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 19, 2004 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
1-610-382-7833 (outside the U.S.)
1-888-269-5221 (Hearing Impaired—TDD Phone)

Address Shareholder Inquiries To:

Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286

E-Mail Address:

Shareowners@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.

Additional Investor/Shareholder Information

Form 10K and other corporate filings to the Securities and Exchange Commission are available on the Corporation's website at www.fcbanking.com under "Investor Relations". The "Investor Relations" section of the website also includes additional information of interest to shareholders such as: press releases, historical stock prices, dividend declarations and corporate governance information, including the Corporation's "Code of Ethics".

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