

**FIRST
COMMONWEALTH
MORTGAGE
TRUST**

2023 ANNUAL REPORT

TO OUR SHAREHOLDERS:

This year First Commonwealth Mortgage Trust (“FCMT”) celebrates its 39th Year in operation. FCMT has paid out dividends every year since 1985 and has increased dividends annually since 2014. FCMT’s total revenues in 2023 were \$447,408 before valuation adjustment compared to \$642,790 the previous year. The FCMT 2023 net income was \$134,444, compared to a net loss of \$(93,404) in 2022. Net income per share for 2023 was \$0.12 compared to \$(0.08) per share net loss in 2022. FCMT’s income for 2023 can be attributed mainly to unrealized gain on marketable securities. These securities were impacted by interest rate increases and overall market volatility. FCMT had increases in dividends and interest on marketable securities. The financial statements of FCMT for the years ending December 31, 2023, and December 31, 2022, audited by Melton & Melton, L.L.P., are set forth at the end of this report.

With FCMT having little to no debt, it is essentially an unleveraged investment vehicle. This differentiates us in the marketplace from other mortgage REITs who typically are highly leveraged. Despite being impacted by low interest rates in recent years, yields on our new loans are trending upwards. FCMT has an active flow of smaller real estate secured first-lien notes used for real estate business as opposed to speculative ownership. We utilize a straight-forward underwriting process and charge a premium on the loan interest rate in exchange for the streamlined and efficient approval process available to borrowers, which creates value on both ends of the transaction. In 2024, we will seek to continue growing our book value of assets and increase dividends by focusing on commercial loans to repeat performing borrowers and their referrals. We also maintain a portfolio of liquid assets including REIT securities, bonds, certificates of deposit and other fixed income assets.

Corporate Overview

First Commonwealth Mortgage Trust (“FCMT” or the “Trust”) was originally organized as a Massachusetts business trust in 1984 and reformed in Texas as a real estate

investment trust in 2008. The Trust was formed for the purpose of originating and purchasing real estate loans, trust deeds, mortgages or real estate lien promissory notes associated with real properties (“Mortgage Loans”).

The Trust’s primary investment objective is to maximize cash distributions to its shareholders based on funds available for distribution, which includes funds provided from operations and, from time to time, gains realized on the sale of investments.

The Trust was organized and has qualified since inception as a real estate investment trust (“REIT”) in accordance with federal tax laws and regulations. The business and affairs of the Trust are managed under the direction of its Trust Managers who are elected by the shareholders of FCMT. So long as the Trust complies with such laws and regulations, with limited exceptions, the Trust will not be taxed under federal income tax laws on that portion of its taxable income that it distributes to its shareholders. The Trust intends to distribute substantially all of its real estate investment trust taxable income to its shareholders. Undistributed income increases the book value per share. The Trust views the combination of the annual dividend and change in book value as a measure of that year’s shareholder return. We refer to this as Earnings Yield on Book Value and the historical numbers are shown under Other Data in the Selected Financial Data Five-Year Summary following this shareholder letter.

The book value per share of FCMT Stock was \$6.55 on December 31, 2023. The original shares were issued at \$10.00 per share. Since 1985, dividends of \$22.15 per share have been distributed to the shareholders. Of these total dividends, a portion amounting to \$1.32 per share, was treated as non-taxable return of capital to the shareholders.

2023 FCMT Comparative Analysis

Typically, mortgage REITs borrow up to 85% of the fair market value of assets, and this leverage can make them vulnerable to rising interest rates. Dividends issued by mortgage REITs, although typically higher than other asset classes, can be unpredictable. As such, the higher yields come with higher risk. Because FCMT has little to no debt, and is essentially an unleveraged investment vehicle, we look to unleveraged fixed income

instruments for more accurate comparisons such as the yield on bonds. On December 31, 2023, the 10-year benchmark treasury bond was 3.88%. On that same date, the Moody's Seasoned Baa corporate bond was 1.61% greater than the 10-year treasury, or 5.49%. Moody's Baa rated obligations are subject to moderate credit risk. The 2023 Earnings Yield on Book Value shown under Other Data on page seven of this report was 1.83%. The 2023 dividend was a yield of 4.204% on the 2023 beginning share price.

Passing of Trust Manager

On December 28, 2023, Independent Trust Manager, George Beatty, Jr. passed away. George had served as a Trust Manager since 1998 (26 years). He also served on various subcommittees including the audit committee. We were fortunate to have his stewardship and dedication as Trust Manager. We will miss George.

New Trust Manager

The remaining trust managers appointed Gary W. Noble as a trust manager to fill the remainder of the term of George Beatty, Jr. Mr. Noble has an extensive background in Real Estate and Commercial lending as well as bank operations.

Stock Repurchase Program

The Trust Managers believe it is in the best interests of the shareholders for the Trust to periodically offer to purchase shares to allow liquidity. Therefore, at the 2017 annual meeting, shareholders approved the adoption of a stock purchase program funded from available cash or sales of portfolio securities.

Under the program, at the Trust Managers' discretion, the Trust may make offers to purchase Trust shares, not more than semi-annually upon certain conditions and limitations. The Trust Managers anticipate making such offers within a reasonable time after the Trust's December 31st audited financial statements have been completed. Offers

to purchase shares will be made at 90% of net book value less any subsequent dividends declared and payable to the selling shareholder.

Should the participating shareholders tender shares in excess of the amount the Trust has agreed to purchase, the Trust will purchase the shares tendered on a pro rata basis, except that the Trust may accept all shares tendered by shareholders owning 1,000 or fewer shares.

Trust Managers anticipate making offers to purchase approximately 5% of the outstanding shares of the Trust during 2024. During 2023, 56,956 shares were purchased under the plan at a cost of \$333,193. Since implementing the buy-back liquidity program in 2017, we have redeemed 31% of shares outstanding at the plan's implementation or a total of 441,519 shares.

FCMT maintains a website www.fcmt.net that contains additional information about the Trust. Shareholder reports are posted on the website along with a history of dividend payments.

Shareholders may also contact the transfer agent below to change their mailing address, change share registration, obtain copies of IRS Form 1099, and arrange the direct deposit of dividends to their bank account.

Equiniti Trust Company
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100

Phone: 800-468-9716 Fax: 651-450-4033

The EQ company issue number is FZA3 for the FCMT common shares.

The 2024 Shareholder meeting is scheduled for Tuesday, May 14, 2024, at 9:30 AM at the offices of its manager, FCA Corp, 791 Town & Country Blvd., Suite 250, Houston, Texas. Please vote your proxy.



Robert A. Scharar
President



Robert A. Burns
Treasurer

March 31, 2024

SELECTED FINANCIAL DATA 5-YEAR SUMMARY

YEAR ENDED DECEMBER 31	2023	2022	2021	2020	2019
REVENUES:					
INTEREST AND DIVIDENDS	\$ 448,716	\$ 442,111	\$ 443,380	\$ 394,514	\$ 470,352
REALIZED AND UNREALIZED GAIN (LOSS)	123,673	(471,841)	156,944	19,909	164,211
SERVICE FEES & OTHER INCOME	1,692	200,669	146,062	33,608	18,870
	574,081	170,939	746,386	448,031	653,433
COST AND EXPENSES	439,637	264,343	234,385	266,733	221,337
NET INCOME	\$ 134,444	\$ (93,404)	\$ 512,001	\$ 181,298	\$ 432,096

PER SHARE DATA

NET INCOME	\$ 0.12	\$ (0.08)	\$ 0.43	\$ 0.15	\$ 0.35
DIVIDENDS	\$ 0.28	\$ 0.26	\$ 0.21	\$ 0.19	\$ 0.15

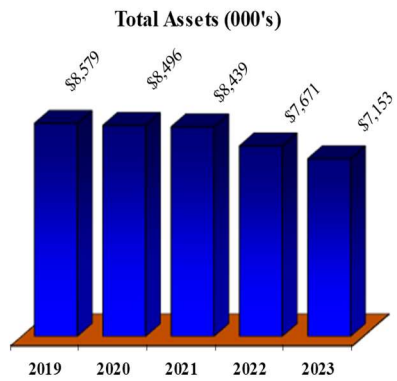
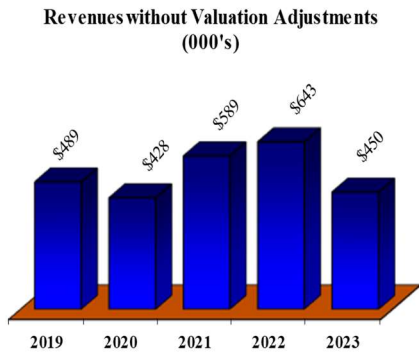
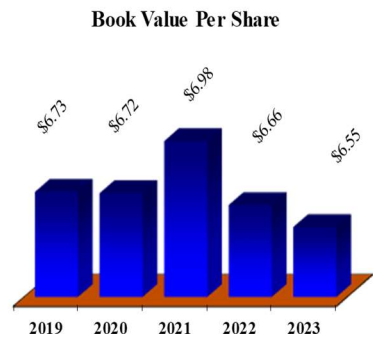
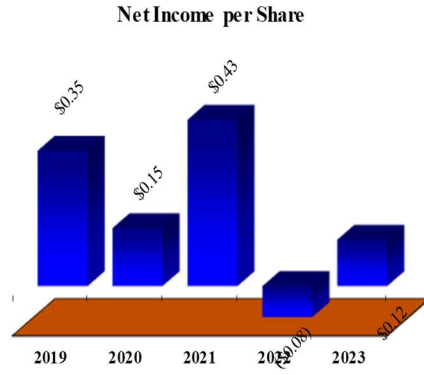
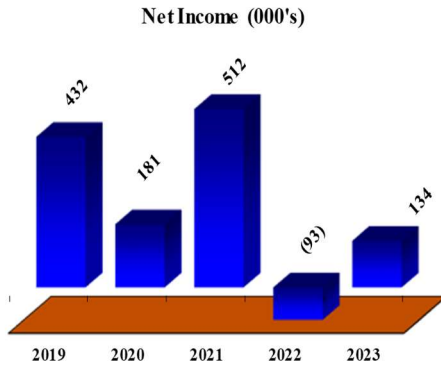
YEAR END DATA

TOTAL ASSETS	\$ 7,152,636	\$ 7,670,810	\$ 8,438,596	\$ 8,496,485	\$ 8,578,701
SHAREHOLDERS' EQUITY	7,093,011	7,602,760	8,248,006	8,222,584	8,452,588
SHARES OUTSTANDING	1,082,237	1,139,193	1,181,475	1,223,732	1,256,731
BOOK VALUE PER SHARE	\$ 6.55	\$ 6.66	\$ 6.98	\$ 6.72	\$ 6.73
% INCREASE IN BOOK VALUE PER SHARE	-1.65%	-4.58%	3.87%	-0.15%	3.86%

OTHER DATA

LOANS ORIGINATED (000's)	\$ 200	\$ 750	\$ 175	\$ 1,404	\$ 625
CUMULATIVE TOTAL LOANS (000's)	\$ 101,508	\$ 101,308	\$ 100,558	\$ 100,383	\$ 98,979
TOTAL ASSETS (000's)	\$ 7,153	\$ 7,671	\$ 8,439	\$ 8,496	\$ 8,579
EARNINGS YIELD ON BOOK VALUE *	1.83%	-1.20%	6.16%	2.23%	5.20%

* Defined as dividends paid plus annual change in book value divided by the beginning of the year price per share



FIRST COMMONWEALTH MORTGAGE TRUST

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2023 AND 2022
AND
INDEPENDENT AUDITOR'S REPORT



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

FIRST COMMONWEALTH MORTGAGE TRUST

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Equity	5
Statements of Cash Flows	6
Notes to Financial Statements.....	8



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trust Managers of
First Commonwealth Mortgage Trust

Opinion

We have audited the financial statements of First Commonwealth Mortgage Trust, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of First Commonwealth Mortgage Trust as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Commonwealth Mortgage Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First Commonwealth Mortgage Trust's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First Commonwealth Mortgage Trust’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Commonwealth Mortgage Trust’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.



Houston, Texas
March 26, 2024

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEETS
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Mortgage Notes Receivable:		
Mortgage notes receivable, net of participations payable of \$847,980 and \$867,863 at December 31, 2023 and 2022, respectively	\$ 4,609,557	\$ 5,016,595
Cash and cash equivalents	244,809	894,715
Certificates of deposit - restricted	354,053	348,170
Marketable securities	1,729,534	931,103
Accrued interest receivable, net of participations payable of \$259,851 at both December 31, 2023 and 2022	175,039	347,497
Other receivables	15,810	108,896
Investment in affiliate	23,834	23,834
	<u>\$ 7,152,636</u>	<u>\$ 7,670,810</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Accounts payable and other liabilities	\$ 59,625	\$ 68,050
Total liabilities	59,625	68,050
Equity:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,082,237 and 1,139,193 shares issued and outstanding in 2023 and 2022, respectively	12,474,785	12,807,978
Accumulated deficit	(5,381,774)	(5,205,218)
Total equity	7,093,011	7,602,760
	<u>\$ 7,152,636</u>	<u>\$ 7,670,810</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Interest income	\$ 311,266	\$ 309,488
Dividends and interest income - marketable securities	137,450	132,623
Realized and unrealized gain (loss) on marketable securities	123,673	(471,841)
Miscellaneous income	<u>1,692</u>	<u>200,669</u>
	<u>574,081</u>	<u>170,939</u>
Costs and Expenses:		
Accrued interest forgiveness	192,799	-
Management fees to affiliate	107,181	118,422
Professional fees	82,754	80,656
General and administrative	<u>56,903</u>	<u>65,265</u>
	<u>439,637</u>	<u>264,343</u>
Net income (loss)	<u>\$ 134,444</u>	<u>\$ (93,404)</u>
Weighted average shares outstanding	<u>1,110,325</u>	<u>1,157,516</u>
Net income (loss) per share, basic and diluted	<u>\$ 0.12</u>	<u>\$ (0.08)</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2023 and 2022

	Shares of		Accumulated	Total
	<u>Beneficial Interest</u>			
	<u>Shares</u>		<u>Deficit</u>	<u>Equity</u>
	<u>Outstanding</u>	<u>Amount</u>		
Balance, December 31, 2021	1,181,475	\$ 13,058,133	\$ (4,810,127)	\$ 8,248,006
Purchase of shares of beneficial interest	(59,075)	(363,311)	-	(363,311)
Issuance of shares of beneficial interest	16,793	113,156	-	113,156
Dividends	-	-	(301,687)	(301,687)
Net loss	<u>-</u>	<u>-</u>	<u>(93,404)</u>	<u>(93,404)</u>
Balance, December 31, 2022	1,139,193	12,807,978	(5,205,218)	7,602,760
Purchase of shares of beneficial interest	(56,956)	(333,193)	-	(333,193)
Dividends	-	-	(311,000)	(311,000)
Net income	<u>-</u>	<u>-</u>	<u>134,444</u>	<u>134,444</u>
Balance, December 31, 2023	<u>1,082,237</u>	<u>\$ 12,474,785</u>	<u>\$ (5,381,774)</u>	<u>\$ 7,093,011</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Net income (loss)	\$ 134,444	\$ (93,404)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized and unrealized (gain) loss on marketable securities	(123,673)	471,841
Accrued interest forgiveness	192,799	-
Changes in operating assets and liabilities:		
Accrued interest receivable, net of participations payable	(20,341)	27,379
Other receivables	(1,914)	82,223
Accounts payable and other liabilities	(8,425)	(39,966)
Total adjustments	<u>38,446</u>	<u>541,477</u>
Net cash provided by operating activities	<u>172,890</u>	<u>448,073</u>
Cash Flows from Investing Activities:		
Mortgage note originations	(315,406)	(750,000)
Principal collected on mortgage notes receivable, net of participations payable	722,444	2,086,526
Proceeds from (advance to) related party	95,000	(58,000)
(Purchase) redemption of certificates of deposit	(5,883)	82,589
Purchase of marketable securities	(965,465)	(193,622)
Proceeds from sale of marketable securities	290,707	-
Net cash provided by (used in) investing activities	<u>(178,603)</u>	<u>1,167,493</u>
Cash Flows from Financing Activities:		
Proceeds from margin debt	-	355,597
Payments on margin debt	-	(438,531)
Dividends - shareholders	(311,000)	(301,687)
Purchase of shares of beneficial interest	(333,193)	(363,311)
Net cash used in financing activities	<u>(644,193)</u>	<u>(747,932)</u>
Net change in cash and cash equivalents	(649,906)	867,634
Cash and Cash Equivalents, beginning of year	<u>894,715</u>	<u>27,081</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 244,809</u></u>	<u><u>\$ 894,715</u></u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	<u>\$ 166</u>	<u>\$ 5,544</u>
Noncash Investing and Financing Activities:		
Acquisition of participation interests in mortgage note receivable for shares of beneficial interest		<u>\$ 113,156</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

First Commonwealth Mortgage Trust (“Trust”) was organized on September 26, 1984 and commenced operations on June 27, 1985. The Trust is a Texas real estate investment trust with a termination date of December 31, 2030. The Trust is engaged primarily in the business of investing in loans collateralized by mortgages on real estate. These loans are principally collateralized in Texas, Florida, and Virginia.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in banks and liquid investments with an original maturity of three months or less.

Mortgage Notes Receivable and Allowance for Losses

Mortgage notes receivable, net of participations, are carried at unpaid principal balances less an allowance for credit losses. Management intends to hold mortgage notes receivable to maturity. Mortgage notes are principally collateralized by first mortgage loans on commercial or residential property located in Texas, Florida, and Virginia and are due at various dates. Mortgage notes bear interest at rates ranging from 2% to 8%.

The allowance for credit losses is based on management’s estimate of the amount required to maintain an allowance adequate to reflect the risks inherent in the mortgage note portfolio after giving consideration to existing economic conditions, loss experience in relation to outstanding mortgage notes, changes in the mortgage note portfolio, borrowers’ performance in reducing mortgage note principal, adequacy of mortgage note collateral, and other relevant factors. A mortgage note is charged off against the allowance for credit losses when management determines the mortgage note is uncollectible. A mortgage note is placed on nonaccrual status when it becomes past due, as determined by management. Upon suspension of the accrual of interest, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on the mortgage note is credited to principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as revenue. Accrual of interest is resumed when a mortgage note is removed from nonaccrual status. Interest income is accrued based upon the principal amount outstanding. Commitment and origination fees are deferred and recognized as income using a method approximating the interest method over the life of the loan.

A mortgage note is considered impaired when it is probable that the scheduled principal or interest will not be collected. Impaired mortgage notes, including mortgage notes that have been placed on nonaccrual status, are valued upon the present value of expected future cash flows discounted at the mortgage note’s effective interest rate or collateral fair value, if the mortgage note is collateral dependent. If the measure of the impaired mortgage note is less than the recorded investment in the mortgage note, an impairment loss is included in the allowance for credit losses.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At December 31, 2023 and 2022, there were no impaired mortgage notes and no allowance for credit losses on mortgage notes receivable and accrued interest receivable and no commitments to lend additional funds to borrowers. In 2023, the Trust forgave accrued interest on a mortgage note receivable of \$192,799 as a result of a settlement on collections of the mortgage note receivable. In 2022, there was no forgiveness of accrued interest. In 2023 and 2022, no mortgage notes were forgiven and there were no credit losses.

At December 31, 2023 and 2022, two mortgage notes receivable customers represented approximately 30% and 27% of total mortgage notes receivable, net of participations payable, respectively. Interest related to four and three mortgage notes receivable was approximately 64% and 47% of interest income for 2023 and 2022, respectively.

At December 31, 2023, the Trust's mortgage notes receivable portfolio consists of term and revolving mortgage notes originating in the following years:

Term mortgage notes receivable:	
2023	\$ 215,743
2022	600,725
2021	153,468
2020	339,241
2019	-
Prior to 2019	<u>3,707,599</u>
	5,016,776
Less: Participation rights	<u>847,980</u>
	4,168,796
Revolving mortgage notes receivable:	
2019	<u>440,761</u>
	<u>\$4,609,557</u>

Marketable Securities

The Trust's investments in marketable securities consist of real estate investment trusts and fixed income securities and are stated at fair value with unrealized gains (losses) being combined with realized gains (losses) in the Trust's statements of operations. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. See Note 3 for discussion of fair value measurements.

Purchases and sales of marketable securities are recorded on a trade-date basis. Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date. The realized gain or loss on marketable securities is based on specific identification and reported in operations.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Income (Loss) per Share

Net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of beneficial interest outstanding during the year. The Trust has no items that give rise to anti-dilutive shares. Accordingly, basic and dilutive shares presented are the same.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Recent Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*, which was subsequently amended by ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU 2016-13, as amended, requires financial assets measured at amortized cost be presented at the net amount expected to be collected. ASU 2016-13, as amended, is effective for annual reporting periods beginning after December 15, 2022, with early adoption permitted. ASU 2016-13, as amended, is to be applied using a cumulative effect adjustment on the date of adoption. Management adopted ASU 2016-13, as amended, effective January 1, 2023 using a cumulative effective adjustment approach, and there was no effect on the Trust’s equity.

NOTE 2 - MARKETABLE SECURITIES

At December 31, 2023 and 2022, marketable securities consist of the following:

	2023			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Real estate investment trusts (“REIT”)	\$1,683,902	\$ -	\$647,029	\$1,036,873
Fixed income:				
Government securities	475,848	17,291	-	493,139
Municipal revenue bonds	104,390	-	3,178	101,347
Corporate bonds	99,157	-	847	98,175
	<u>\$2,363,297</u>	<u>\$17,291</u>	<u>\$651,054</u>	<u>\$1,729,534</u>

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 - MARKETABLE SECURITIES (CONTINUED)

	2022			
<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	
REIT	<u>\$1,683,902</u>	<u>\$63,356</u>	<u>\$816,155</u>	<u>\$931,103</u>

Investment income is included in dividends and interest income - marketable securities on the statements of operations. The Trust had sales of marketable securities of \$290,707 resulting in a net realized gain of \$1,127 in 2023. There were no sales of marketable securities in 2022.

NOTE 3 - FAIR VALUE MEASUREMENTS

Various inputs are used in determining fair value of marketable securities. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy, including the types of marketable securities that fall under each category and the valuation methodologies used to measure fair value, are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

REIT stock: Valued at the closing market price on a national exchange.

Level 2 - Inputs to the valuation methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Fixed income: Valued using matrix or model based valuations.

Level 3 - Inputs to the valuation methodology are unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The inputs and methodologies used for valuing marketable securities are not an indication of the risk associated with investing in those securities. There have been no changes in the methodologies used at December 31, 2023 or 2022.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth by level, within the fair value hierarchy, the Trust's investments at fair value as of December 31, 2023 and 2022:

<u>Description</u>	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
REIT	\$1,036,873	\$ -	\$ -	\$1,036,873
Fixed income	<u>-</u>	<u>692,661</u>	<u>-</u>	<u>692,661</u>
Total marketable securities	<u>\$1,036,873</u>	<u>\$ 692,661</u>	<u>\$ -</u>	<u>\$1,729,534</u>

<u>Description</u>	<u>2022</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
REIT	\$ 931,103	\$ -	\$ -	\$ 931,103
Total marketable securities	<u>\$ 931,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 931,103</u>

NOTE 4 - INVESTMENT IN AFFILIATE

Investments that do not have readily determinable fair value are measured and recorded using a measurement alternative that measures the investment at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes.

The Trust participates with Holly Mortgage Trust ("Holly"), a Texas real estate investment trust, for the purpose of investing in second mortgages and equity participation mortgages. At December 31, 2023 and 2022, the Trust also owned 58,131 shares of beneficial interest in Holly, which comprised approximately 3.6% of the outstanding shares in Holly at December 31, 2023 and 2022.

The carrying value of the investment in Holly is adjusted for any qualifying observable price changes. The Trust did not identify any qualifying observable price changes in the investment in 2023 or 2022 and there were no upward or downward adjustments to the carrying value of the investment. The investment is also subject to impairment reviews when indicators of impairment exist. The Trust did not identify any indicators of impairment for the investment in 2023 or 2022.

NOTE 5 - LETTER OF CREDIT

At December 31, 2023 and 2022, the Trust has a \$16,083 and \$33,247, respectively, letter of credit for a customer with a termination date in November 2024. As a condition for the letter of credit, the Trust purchased a certificate of deposit with a balance of \$33,696 and \$33,170 at December 31, 2023 and 2022, respectively, with the financial institution that issued the letter of credit. The certificate of deposit matures in November 2024, is restricted for use against the letter of credit if drawn upon, and is included in certificates of deposit – restricted in the balance sheets.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 6 - FEDERAL INCOME TAXES

The Trust operates in such a manner as to qualify as a “real estate investment trust” under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust’s otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ended December 31, 2023 and 2022. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	<u>2023</u>	<u>2022</u>
Ordinary income	100%	100%
Return of capital	—	—
	<u>100%</u>	<u>100%</u>

As of December 31, 2023, the Trust has a federal net operating loss carryforward of approximately \$2 million that can be deducted against future taxable income and expires in 2032 - 2034. The Trust has approximately \$100,000 in net operating loss carryforwards that do not expire. The Trust does not expect to pay federal income taxes, thus the tax effect of the deferred income taxes has been adjusted to zero by a valuation allowance at December 31, 2023 and 2022. The valuation allowance increased approximately \$37,000 and \$64,000 in 2023 and 2022, respectively.

Significant components of the Trust’s net deferred income taxes at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Deferred income tax assets (liabilities) relating to:		
Net operating loss	\$ 449,209	\$ 428,932
Investments	132,117	158,088
Cash conversion	<u>(33,715)</u>	<u>(76,485)</u>
	547,611	510,535
Valuation allowance	<u>(547,611)</u>	<u>(510,535)</u>
	<u>\$ -</u>	<u>\$ -</u>

Management has evaluated the Trust’s tax positions and concluded that the Trust has taken no uncertain tax positions that require adjustment to the financial statements. Tax-related interest and penalties are recorded in income tax expense in the statements of operations. The Trust incurred no tax-related interest or penalties in 2023 or 2022. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2020 and after.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 7 - MANAGEMENT AGREEMENT AND RELATED-PARTY TRANSACTIONS

FCA Corp (“FCA”) is the Trust’s compensated manager and is related to the Trust through common management. Management fees from the Trust to FCA were approximately \$107,000 and \$118,000 for 2023 and 2022, respectively. The management fee for the Trust is based on 1.4% of the book value of its assets at the end of each prior fiscal year less accounting and certain board member fees.

At December 31, 2022, included in other receivables on the balance sheets is \$95,000 due from Holly. The amount was received in full in 2023.

Holly has a \$325,000 loan agreement with First National Bank of Chickasha (the “Bank”) in which the Trust guaranteed the loan. The loan has a balance of \$295,000 and \$315,000 at December 31, 2023 and 2022, respectively. The Trust is a guarantor of the loan and has invested in a certificate of deposit with a balance of \$320,357 and \$315,000 at December 31, 2023 and 2022, respectively, held by the Bank as collateral for the loan, which is included in certificates of deposit – restricted in the balance sheets. The guarantee expires upon final payment on the loan in October 2024. In the event Holly defaults on the loan, the Trust will be obligated to surrender the certificate of deposit to pay the unpaid principal balance of the loan, plus any interest, charges, and fees, as well as be liable for any expenses incurred in enforcing rights under the guarantee agreement. Including accrued interest, the maximum potential amount of future (undiscounted) payments under the guarantee is approximately \$295,000, plus reasonable associated legal fees, at December 31, 2023.

NOTE 8 - CONCENTRATION RISKS

The Trust maintains cash balances in a bank, which at times exceed federally insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with this account.

Marketable securities are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain securities, it is reasonably possible that changes in the fair value of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

NOTE 9 - STOCK REPURCHASE PROGRAM

The Trust has a Stock Repurchase Program (“Stock Program”) to provide a level of liquidity to its shareholders as a result of no secondary market existing for the Trust’s shares. The Trust may make an offer to repurchase Trust shares, not more than semi-annually and within a reasonable period of time after June 30 and December 31, at a price per share determined by the Trust managers. In 2023 and 2022, the Trust issued a Notice of Voluntary Stock Repurchase Offer (“Repurchase Offer”) to its shareholders. The Repurchase Offer included a repurchase price of \$5.85 and \$6.15 per share, respectively, representing 90% of the Trust’s beginning of the year net book value per share less a dividend payment of \$0.14 and \$0.13 per share for 2023 and 2022, respectively. In 2023 and 2022, the Trust repurchased 56,956 shares

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 9 - STOCK REPURCHASE PROGRAM (CONTINUED)

of beneficial interest for \$333,193 and 59,075 shares of beneficial interest for \$363,311, respectively. The number of repurchased shares was limited to 5% of the Trust's outstanding shares of beneficial interest in each offering. There were no offers outstanding at December 31, 2023 or 2022.

NOTE 10 - SALE OF LAND

In April 2018, the Trust entered into an Agreement of Understanding ("Agreement") and a Real Estate Purchase Option Agreement ("Purchase Option") with an unrelated third-party. Under the Agreement, the third-party purchased two land lots at \$70,000, each, for development and sale. If the lots are developed and sold, the Trust will receive gross sale proceeds in excess of \$70,000 (for each lot sold) at an allocation rate of 13%. If the lots are not developed and sold by April 2020, the Trust may require the lots be sold and sale proceeds in excess of \$70,000, plus certain fees (for each lot sold) will be allocated to the Trust at 80%. In accordance with the Purchase Option, the Trust granted the third-party a two-year purchase option for \$3,600 to purchase the nine remaining land lots for \$72,000 per lot. The Purchase Option was exercised in April 2020. In 2022, additional funds of \$192,669 were received for the Trust's allocation of 13% of sale proceeds in excess of \$72,000 and 80% allocation of sale proceeds in excess of \$70,000 plus fees, which is recorded in miscellaneous income on the statements of operations.

NOTE 11 - BOOK VALUE PER SHARE

Book value per share at December 31, 2023 and 2022 amounted to \$6.55 and \$6.66, respectively.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2024, the date the financial statements were available to be issued.

FIRST COMMONWEALTH MORTGAGE TRUST

BOARD OF TRUST MANAGERS

George Beatty, Jr. (Deceased)

Retired Environmental Consultant

Mr. Beatty also served as a trust manager of Holly Mortgage Trust and as a manager of Africap, LLC.

Gary W. Noble

Banker

Mr. Noble is a new appointee to the board and has an extensive background in real estate lending and operations.

Donna Flowers

Banker

Ms. Flowers has over 20 years experience in banking in real estate lending, operations and bank management.

William N. Walterman

Retired Banker

Mr. Walterman has over 40 years experience in banking in business development, marketing and management of commercial and consumer loan portfolios.

Robert W. Scharar

President of First Commonwealth Mortgage Trust, Chairman of the Board of Trust Managers

Mr. Scharar also serves as a trust manager of Holly Mortgage Trust and holds positions with other entities, including but not limited to, Commonwealth International Series Trust, Africap, LLC, and FCA Corp.

EXECUTIVE OFFICERS

Robert W. Scharar

President

Robert A. Burns

Treasurer

William B. LeVay

Secretary

All officers are employees of FCA Corp and serve as officers of other entities.

TRANSFER AGENT

Equiniti Trust Company

1110 Centre Pointe Curve, Suite 101, Mendota Heights, MN 55120-4100

Phone: 800-468-9716 Fax: 651-450-4033

Website: www.shareowneronline.com

The EQ company issue number is FZA3 for the FCMT common shares.