FIRST COMMONWEALTH MORTGAGE TRUST

2018 ANNUAL REPORT

TO OUR SHAREHOLDERS:

The financial statements of First Commonwealth Mortgage Trust ("FCMT") for the years ending December 31, 2018 and December 31, 2017, audited by Melton & Melton, L.L.P. are set forth at the end of this report.

FCMT's total revenues in 2018 were $584,471, up from $499,730 the previous year. The FCMT 2018 net income was $347,068, compared to 2017 net income of $219,162. Net income per share for 2018 was $0.27 compared to 2017 net income of $0.16 per share. FCMT's increased income for 2018 can be attributed in part to certain non-recurring gain on disposition of real property in Tampa, Florida.

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. 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.

The business and affairs of the Trust are managed under the direction of its Trust Managers who are elected by the shareholders of FCMT.

The book value per share of FCMT Stock was $6.48 at December 31, 2018. The original shares were issued at $10.00 per share. Since 1985, dividends of $21.06 per share have been distributed to the shareholders. Of these total dividends, a portion amounting to $1.30 per share, were treated as non-taxable return of capital to the shareholders.

FCMT is essentially an unleveraged company. For example, on December 31, 2018 our liabilities were $120,413.

FCMT has been impacted by low interest rates in recent years, in that yields on mortgage loans have decreased along with interest rates. Yields now seem to be trending upwards.

Stock Purchase Program

The Trust Managers believe that in order to allow liquidity for shareholders, it is in the best interests of the shareholders, for the Trust to periodically offer to purchase shares. Therefore, at the 2017 annual meeting of shareholders, 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 31 audited financial statements have been completed. Offers to purchase shares will be made at 90% of net book value less any 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 own fewer than 1,000 shares.

Trust Managers anticipate making offers to purchase approximately 5% of the outstanding shares of the Trust semi-annually. During 2018, 66,890 shares were purchased under the plan at a cost of $378,597. During 2017, 70,403 shares were purchased under the plan at a cost of $395,665.

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 2019 Shareholder meeting is scheduled for Tuesday, May 14, 2019 at the offices of its manager, FCA Corp, 791 Town & Country Blvd., Suite 250, Houston, Texas. Please vote your proxy.

Robert A. Scharar	Robert A. Burns
President	Treasurer

March 19, 2019

SELECTED FINANCIAL DATA
5-YEAR SUMMARY

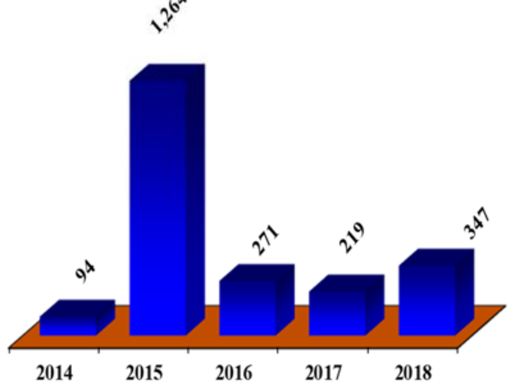
YEAR ENDED DECEMBER 31	2018	2017	2016	2015	2014
REVENUES:					
INTEREST AND DIVIDENDS	$ 574,295	$ 458,651	$ 464,133	$ 361,866	$ 369,648
SERVICE FEES & OTHER INCOME	10,176	41,079	45,732	1,498,383	85,512
	584,471	499,730	509,865	1,860,249	455,160
COST AND EXPENSES	237,403	280,568	238,524	595,942	360,875
NET INCOME	$ 347,068	$ 219,162	$ 271,341	$ 1,264,307	$ 94,285

PER SHARE DATA					
NET INCOME	$ 0.27	$ 0.16	$ 0.19	$ 0.86	$ 0.06
DIVIDENDS	$ 0.13	$ 0.12	$ 0.11	$ 0.05	$ 0.04

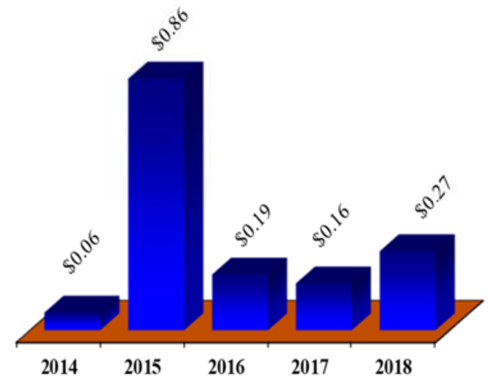
YEAR END DATA					
TOTAL ASSETS	$ 8,362,024	$ 8,631,218	$ 8,944,842	$ 8,793,609	$ 10,612,712
SHAREHOLDERS' EQUITY	8,241,611	8,496,995	8,892,364	8,737,889	8,011,126
SHARES OUTSTANDING	1,270,878	1,337,768	1,408,171	1,408,171	1,490,571
BOOK VALUE PER SHARE	$ 6.48	$ 6.35	$ 6.31	$ 6.21	$ 5.37
% INCREASE IN BOOK VALUE PER SHARE	2.05%	0.63%	1.61%	15.64%	0.37%

OTHER DATA					
LOANS ORIGINATED (000's)	$ 615	$ 816	$ 550	$ 1,175	$ 420
CUMULATIVE TOTAL LOANS (000's)	$ 98,354	$ 97,739	$ 96,923	$ 96,373	$ 95,198
TOTAL ASSETS (000's)	$ 8,362	$ 8,631	$ 8,945	$ 8,794	$ 10,613
EARNINGS YIELD ON BOOK VALUE	4.16%	2.52%	3.01%	13.86%	1.12%

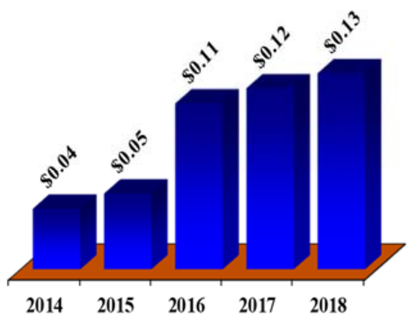
Net Income (000's)



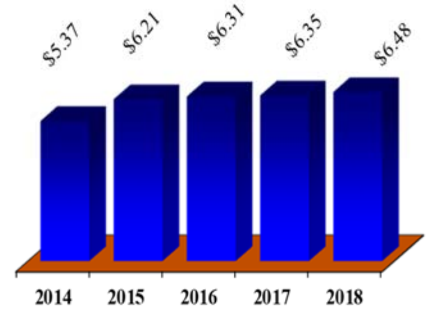
Net Income per Share



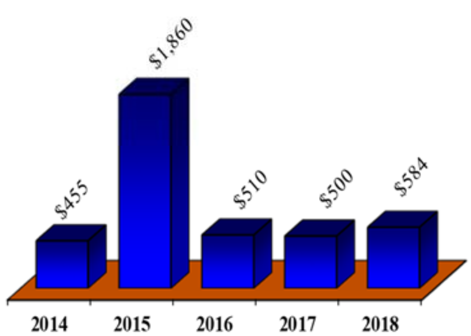
Dividends Per Share



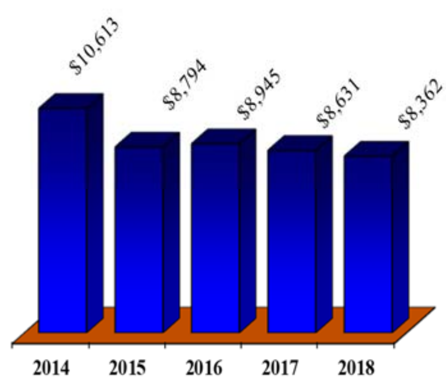
Book Value Per Share



Revenues (000's)



Total Assets (000's)



FIRST COMMONWEALTH MORTGAGE TRUST

FINANCIAL STATEMENTS

FOR THE

YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

INDEPENDENT AUDITOR'S REPORT

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

FIRST COMMONWEALTH MORTGAGE TRUST

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trust Managers of
First Commonwealth Mortgage Trust

We have audited the accompanying financial statements of First Commonwealth Mortgage Trust, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Commonwealth Mortgage Trust as of December 31, 2018 and 2017, 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.

Melton & Melton, L.L.P.

Houston, Texas
February 7, 2019

6002 Rogerdale, Ste. 200 Houston, Texas 77072 Tel 281-759-1120 Fax 281-759-5500

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Mortgage Notes Receivable:		
Mortgage notes receivable	$ 5,686,398	$ 5,722,337
Cash and cash equivalents	432,841	673,485
Restricted cash and cash equivalents	11,481	14,309
Certificate of deposit - restricted	412,898	412,898
Marketable securities	1,226,351	1,201,141
Accrued interest receivable	340,294	331,690
Other receivables	96,517	90,070
Land	131,410	161,454
Investment in affiliate	23,834	23,834
	$ 8,362,024	**$ 8,631,218**
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and other liabilities	$ 120,413	$ 134,223
Total liabilities	120,413	134,223
Equity:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,270,878 and 1,420,168 shares issued and 1,270,878 and 1,337,768 outstanding in 2018 and 2017, respectively	13,506,249	14,328,158
Accumulated deficit	(5,171,759)	(5,349,599)
Accumulated other comprehensive loss	(92,879)	(38,252)
Treasury shares, 82,400 shares of beneficial interest in 2017, at cost	-	(443,312)
Total equity	8,241,611	8,496,995
	$ 8,362,024	**$ 8,631,218**

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Interest income	$ 336,931	$ 339,836
Dividends and interest income - marketable securities	127,408	118,815
Gain on sale of marketable securities	3,396	36,489
Gain on sale of land	109,956	-
Miscellaneous income	6,780	4,590
	584,471	499,730
Costs and Expenses:		
Management fees to affiliates	91,169	95,560
Professional fees	62,895	80,845
General and administrative	83,339	104,163
	237,403	280,568
Net income	**$ 347,068**	**$ 219,162**
Weighted average shares outstanding	**1,304,781**	**1,372,487**
Net income per share, basic and diluted	**$ 0.27**	**$ 0.16**

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Net Income	$ 347,068	$ 219,162
Other Comprehensive Loss:		
Unrealized losses on marketable securities	(51,231)	(17,621)
Reclassification of realized gain on sale of marketable securities	(3,396)	(36,489)
Net Comprehensive Income	**$ 292,441**	**$ 165,052**

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017

	Shares of Beneficial Interest			Accumulated Other		
	Shares Outstanding	**Amount**	**Accumulated Deficit**	**Comprehensive Income (Loss)**	**Treasury Shares**	**Total Equity**
Balance, December 31, 2016	1,408,171	$ 14,723,823	$ (5,404,005)	$ 15,858	$ (443,312)	$ 8,892,364
Purchase of shares of beneficial interest	(70,403)	(395,665)	-	-	-	(395,665)
Dividends	-	-	(164,756)	-	-	(164,756)
Net income	-	-	219,162	-	-	219,162
Other comprehensive loss	-	-	-	(54,110)	-	(54,110)
Balance, December 31, 2017	1,337,768	14,328,158	(5,349,599)	(38,252)	(443,312)	8,496,995
Purchase of shares of beneficial interest	(66,890)	(378,597)	-	-	-	(378,597)
Retirement of treasury stock	-	(443,312)	-	-	443,312	-
Dividends	-	-	(169,228)	-	-	(169,228)
Net income	-	-	347,068	-	-	347,068
Other comprehensive loss	-	-	-	(54,627)	-	(54,627)
Balance, December 31, 2018	**1,270,878**	**$ 13,506,249**	**$ (5,171,759)**	**$ (92,879)**	**$ -**	**$ 8,241,611**

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 347,068	$ 219,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of marketable securities	(3,396)	(36,489)
Gain on sale of land	(109,956)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(16,791)	(63,879)
Other receivables	(6,447)	(1,040)
Prepaid expenses	-	23,361
Accounts payable and other liabilities	(10,982)	(3,953)
Total adjustments	(147,572)	(82,000)
Net cash provided by operating activities	199,496	137,162
Cash Flows from Investing Activities:		
Mortgage note originations	(475,000)	(714,802)
Principal collected on mortgage notes receivable	659,126	1,137,597
Purchase of certificate of deposit - restricted	-	(87,898)
Purchase of marketable securities	(123,168)	(728,359)
Proceeds from sale of marketable securities	46,727	622,573
Net cash provided by investing activities	107,685	229,111
Cash Flows from Financing Activities:		
Dividends - shareholders	(169,228)	(164,756)
Purchase of shares of beneficial interest	(378,597)	(395,665)
Net cash used in financing activities	(547,825)	(560,421)
Net decrease in cash and cash equivalents	(240,644)	(194,148)
Cash and Cash Equivalents, beginning of year	673,485	867,633
Cash and Cash Equivalents, end of year	**$ 432,841**	**$ 673,485**
Noncash Investing and Financing Activities:		
Restricted cash offset with accounts payable and other liabilities	**$ 11,481**	**$ 14,309**
Accrued interest rolled into mortgage notes receivable	**$ 8,187**	**$ 272,366**
Mortgage note receivable issued on sale of land	**$ 140,000**	**$ -**

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 and Florida.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

The Trust collects escrow deposits for property taxes and insurance related to property listed as collateral for certain mortgage notes. The balance of restricted cash and cash equivalents and deposits collected and included in accounts payable and other liabilities at December 31, 2018 and 2017 is $11,481 and $14,309, respectively.

Mortgage Notes Receivable and Allowance for Losses

Mortgage notes receivable are carried at unpaid principal balances less allowance for losses. Management intends to hold mortgage notes receivable to maturity. Mortgage notes are principally collateralized by first mortgage loans on commercial or residential property and are due at various dates. Mortgage notes bear interest at rates ranging from 3.75% to 10%.

The allowance for 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 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, collectibility 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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A mortgage note is considered impaired when it is probable that the scheduled principal or interest will not be collected. Impaired mortgage notes include mortgage notes that have been placed on nonaccrual status and 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 losses.

At December 31, 2018 and 2017, there were no impaired mortgage notes and no allowance for losses on mortgage notes receivable and accrued interest receivable and no commitments to lend additional funds to borrowers.

At December 31, 2018 and 2017, five mortgage notes receivable customers represented approximately 66% and 70%, respectively, of total mortgage notes receivable. Interest related to four mortgage notes receivable was approximately 62% and 64% of interest income for 2018 and 2017, respectively.

Marketable Securities

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investment – Debt and Equity Securities*, investments in marketable securities with readily determinable fair values are classified as held-to-maturity, trading, or available-for-sale. The Trust classifies marketable securities as available-for-sale and reports the securities at fair value. 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. The Trust has no marketable securities classified as held-to-maturity or trading.

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. The unrealized gain or loss on marketable securities is reported in accumulated other comprehensive loss on the balance sheets.

Land

Land received in foreclosure proceedings is recorded at fair value on date of receipt. Purchased land is recorded at cost. Gains or losses resulting from disposals of land are credited or charged to operations currently.

Management reviews the carrying value of land for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When required, impairment losses on land to be held and used or disposed of other than by sale are recognized based on the current fair value of the land. Land to be disposed of by sale is reported at the lower of its carrying amount or fair value less cost to sell. Management has determined that there is no impairment of land at December 31, 2018 or 2017.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Income per Share

Net income per share is calculated by dividing net income 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.

Comprehensive Income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from nonowner sources, which are referred to as items of other comprehensive income. The Trust has presented separate statements of comprehensive income. An analysis of changes in components of accumulated other comprehensive income (loss) is presented in the statements of changes in equity.

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 Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 was issued with the intent to address certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value with changes in fair value recognized in net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using exit price. The guidance is effective for annual reporting periods beginning after December 15, 2018.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230). ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2018.

Management is currently evaluating the impact these ASUs will have on the Trust's financial statements.

NOTE 2 - MARKETABLE SECURITIES

At December 31, 2018 and 2017, marketable securities consist of the following:

	2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Real estate investment trusts ("REIT")	$1,192,624	$29,555	$121,078	$1,101,101
Preferred stock - REIT	126,606	-	1,356	125,250
	$1,319,230	$29,555	$122,434	$1,226,351

	2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
REIT	$1,112,787	$ 9,423	$53,519	$1,068,691
Preferred stock - REIT	126,606	5,844	-	132,450
	$1,239,393	$15,267	$53,519	$1,201,141

Investment income is included in dividends and interest income - marketable securities on the statements of operations and consists of interest and dividends. The Trust had sales of marketable securities of $46,727 and $622,573 resulting in realized gains of $3,396 and $36,489 in 2018 and 2017, respectively.

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 and preferred 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.

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, 2018 and 2017.

The following tables set forth by level, within the fair value hierarchy, the Trust's investments at fair value as of December 31, 2018 and 2017:

	2018			
Description	Level 1	Level 2	Level 3	Total
REIT	$1,101,101			$1,101,101
Preferred stock - REIT	125,250			125,250
Total marketable securities	$1,226,351			$1,226,351

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
Description	Level 1	Level 2	Level 3	Total
REIT	$1,068,691			$1,068,691
Preferred stock - REIT	132,450			132,450
Total marketable securities	$1,201,141			$1,201,141

NOTE 4 - INVESTMENT IN AFFILIATE

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, 2018 and 2017, 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, 2018 and 2017. The investment in Holly is recorded using the cost method.

At December 31, 2018 and 2017, the investment was not evaluated for impairment because (a) the Trust did not estimate the fair value of this investment in accordance with FASB ASC 825, *Financial Instruments*, and (b) the Trust did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

NOTE 5 - 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 ending December 31, 2018 and 2017. 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:

	2018	2017
Ordinary income	100%	100%
Return of capital	0	0
	100%	100%

NOTE 5 - FEDERAL INCOME TAXES (CONTINUED)

As of December 31, 2018, the Trust has a federal net operating loss carryforward of approximately $2.2 million that can be deducted against future taxable income. The carryforward amount expires in 2032-2035. The Trust does not expect to pay federal income taxes, thus the tax effect of the net operating loss carryforward has been adjusted to zero by a valuation allowance of $465,940 and $529,376 at December 31, 2018 and 2017, respectively. The valuation allowance decreased approximately $63,000 and $143,000 in 2018 and 2017, respectively. Included in the decrease of the valuation allowance in 2017 is the effect of change in effective tax rates of approximately $328,000. There were no changes in effective tax rates in 2018.

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 2018 or 2017. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2015 and after.

NOTE 6 - 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 $91,000 and $96,000 for 2018 and 2017, 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.

Holly has a $325,000 loan agreement with First National Bank of Chickasha (the "Bank") in which the Trust guaranteed the loan. Upon becoming the guarantor, the Trust invested in a $325,000 certificate of deposit with the Bank as collateral for the loan, which is included in certificate of deposit – restricted in the balance sheets. The guarantee expires upon final payment on the loan in October 2020. 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 $315,000, plus reasonable associated legal fees, at December 31, 2018. In 2018 and 2017, the Trust recognized $3,150 and $3,250, respectively, as a loan guarantee fee, which is included in miscellaneous income in the statements of operations. At December 31, 2018 and 2017, the Trust had receivables of $3,150 and $3,250, respectively, from Holly included in other receivables in the balance sheets.

NOTE 7 - 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 8 - LETTER OF CREDIT

The Trust has an $87,898 letter of credit for a customer that expires in November 2019. As a condition for the letter of credit the Trust purchased a certificate of deposit for $87,898 with the financial institution that issued the letter of credit. The certificate of deposit matures in December 2019, is restricted for use against the letter of credit if drawn upon, and is included in certificate of deposit – restricted 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 2018 and 2017, the Trust issued a Notice of Voluntary Stock Repurchase Offer ("Repurchase Offer") to its shareholders. The Repurchase Offer included a repurchase price of $5.66 and $5.62 per share, respectively, representing 90% of the Trust's beginning of the year net book value per share less a dividend payment of $0.06 per share. In 2018 and 2017, the Trust repurchased 66,890 shares of beneficial interest for $378,597 and 70,403 shares of beneficial interest for $395,665, 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, 2018.

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 option expires in April 2020.

NOTE 11 - BOOK VALUE PER SHARE

Book value per share at December 31, 2018 and 2017 amounted to $6.49 and $6.35, respectively.

NOTE 12 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through February 7, 2019, the date the financial statements were available to be issued.

FIRST COMMONWEALTH MORTGAGE TRUST

BOARD OF TRUST MANAGERS

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.

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