

**FIRST
COMMONWEALTH
MORTGAGE
TRUST**

2016 ANNUAL REPORT

TO OUR SHAREHOLDERS:

The financial statements of First Commonwealth Mortgage Trust (“FCMT”) for the years ending December 31, 2016 and December 31, 2015, audited by Melton & Melton, L.L.P. are set forth at the end of this report.

FCMT consolidated its financial statements with Hillsborough River Properties, LLC (“HRP”) through December 31, 2015. This consolidation was driven by FCMT’s majority interest in HRP. HRP discontinued operations in 2015. Additional details will be given below and a full explanation is included as part of the enclosed audit report.

FCMT’s total recurring revenues in 2016 were \$509,865, up from \$386,466 the previous year. The FCMT 2016 net income was \$271,341, compared to a consolidated 2015 net income of \$1,264,307. Net income per share for 2016 was \$0.19 compared to consolidated 2015 net income of \$0.86 per share. FCMT’s greater income for 2015 can be attributed in part to the non-recurring gain on its disposition of the investment in HRP.

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 \$6.31 at December 31, 2016. The original shares were issued at \$10.00 per share. Since 1985, dividends of \$20.81 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, 2016 our liabilities were \$52,478.

FCMT has been impacted by low interest rates, in that yields on mortgage loans have decreased along with interest rates.

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 are being asked to approve the adoption of a stock purchase program that will be 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 and June 30th unaudited, financial statements have been completed. It is anticipated that offers to purchase shares will be made at 90% of net book value less any dividends declared and payable.

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.

Additionally the Shareholders are also being asked to clarify the rights of the Trust Managers to purchase shares, by way of an amendment to the Trust's Declaration of Trust:

“(g) The Trust shall be authorized to offer to purchase its Shares from time to time at the discretion of the Trust Managers, at such purchase prices, at such times, and with such other conditions or restrictions, as the Trust Managers may determine reasonable and in the best interests of the Trust and its shareholders, and where applicable, with approval of such shareholders whose shares are purchased, subject in all cases to applicable law.”

Additional information is available in the proxy statement.

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 can 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:

Wells Fargo Shareowner Services
1110 Centre Pointe Curve,
Suite 101
Mendota Heights, MN 55120-4100
Phone: (800) 468-9716 Fax: (651) 450-4033

The 2017 Shareholder meeting is scheduled for May 9, 2017. Please vote your proxy.



Robert A. Scharar
President



Robert A. Burns
Treasurer

March 21, 2017

SELECTED FINANCIAL DATA 5-YEAR SUMMARY

YEAR ENDED DECEMBER 31	2016	2015	2014	2013	2012
REVENUES:					
INTEREST AND DIVIDENDS	\$464,133	\$361,866	\$369,648	\$418,303	\$529,550
SERVICE FEES & OTHER INCOME	<u>45,732</u>	<u>1,498,383</u>	<u>85,512</u>	<u>52,141</u>	<u>128,647</u>
	509,865	1,860,249	455,160	470,444	658,197
COST AND EXPENSES	238,524	595,942	360,875	1,391,441	1,500,947
NET INCOME	\$ 271,341	\$ 1,264,307	\$ 94,285	\$ (920,997)	\$ (842,750)

PER SHARE DATA

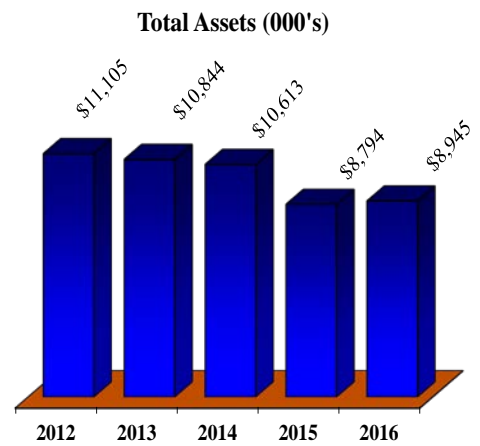
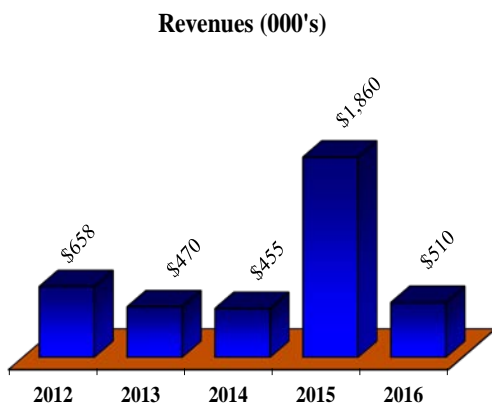
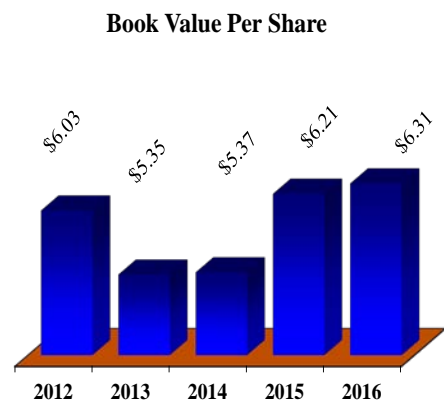
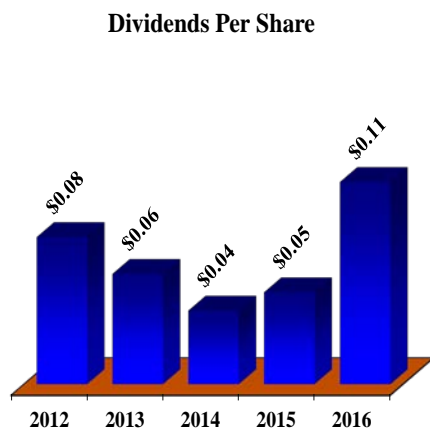
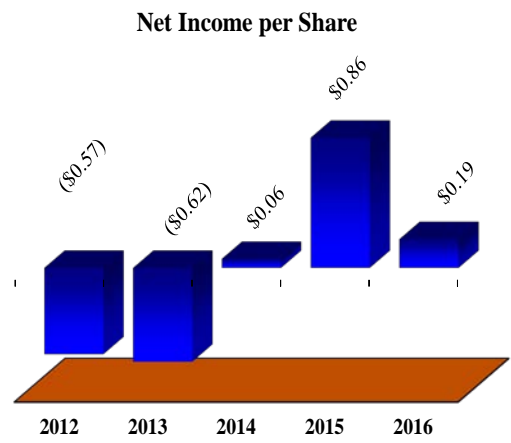
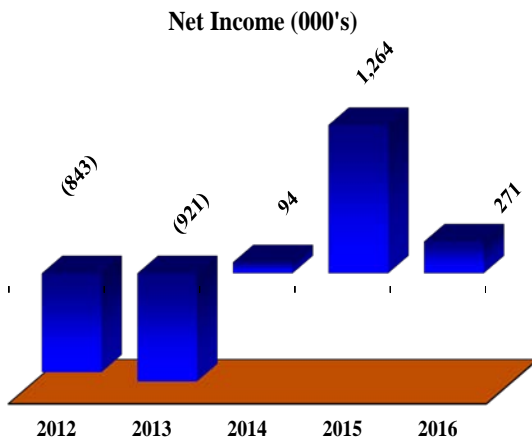
NET INCOME	\$ 0.19	\$ 0.86	\$ 0.06	\$ (0.62)	\$ (0.57)
DIVIDENDS	\$ 0.11	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.08

YEAR END DATA

TOTAL ASSETS	\$ 8,944,842	\$ 8,793,609	\$ 10,612,712	\$ 10,844,283	\$ 11,105,430
SHAREHOLDERS' EQUITY	\$ 8,892,364	8,737,889	8,011,126	7,976,465	8,986,897
SHARES OUTSTANDING	\$ 1,408,171	1,408,171	1,490,571	1,490,571	1,490,571
BOOK VALUE PER SHARE	\$ 6.31	\$ 6.21	\$ 5.37	\$ 5.35	\$ 6.03

OTHER DATA

LOANS ORIGINATED (000's)	\$ 0.550	\$ 1.175	\$ 0.420	\$ 0.210	\$ -
CUMULATIVE TOTAL LOANS (000's)	\$ 96.923	\$ 96.373	\$ 95.198	\$ 94.778	\$ 94.568
TOTAL ASSETS (000's)	\$ 8,945	\$ 8,794	\$ 10,613	\$ 10,844	\$ 11,105
EARNINGS YIELD ON BOOK VALUE	3.01%	13.86%	1.12%	-11.59%	-9.45%



FIRST COMMONWEALTH MORTGAGE TRUST

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

FIRST COMMONWEALTH MORTGAGE TRUST

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Balance Sheets	2
Statements of Operations	3
Statements of Comprehensive Income.....	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

We have audited the accompanying financial statements of First Commonwealth Mortgage Trust, which comprise the balance sheets as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 9, 2017

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEETS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			<u>LIABILITIES AND EQUITY</u>		
Mortgage Notes Receivable:			Liabilities:		
Mortgage notes receivable	\$ 5,771,368	\$ 5,755,015	Accounts payable and other liabilities	\$ 52,478	\$ 55,720
			Total liabilities	<u>52,478</u>	<u>55,720</u>
Cash and cash equivalents	867,633	1,539,761			
Restricted cash and cash equivalents	16,509	21,282	Equity:		
Certificate of deposit - restricted	325,000	-	Shares of beneficial interest, no par value,		
Marketable securities	1,112,976	752,356	20,000,000 shares authorized, 1,490,571 shares		
Accrued interest receivable	540,177	442,107	issued and 1,408,171 outstanding	14,723,823	14,723,823
Other receivables	102,530	97,800	Accumulated deficit	(5,404,005)	(5,520,447)
Prepaid expenses	23,361	-	Accumulated other comprehensive income (loss)	15,858	(22,175)
Land	161,454	161,454	Treasury shares, 82,400 shares of beneficial interest, at cost	<u>(443,312)</u>	<u>(443,312)</u>
Investment in affiliate	<u>23,834</u>	<u>23,834</u>	Total equity	<u>8,892,364</u>	<u>8,737,889</u>
	<u>\$ 8,944,842</u>	<u>\$ 8,793,609</u>		<u>\$ 8,944,842</u>	<u>\$ 8,793,609</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue:		
Interest income	\$ 375,947	\$ 335,144
Dividends and interest income - marketable securities	88,186	26,722
Gain on sale of land	-	24,600
Gain on sale of marketable securities	30,773	-
Miscellaneous income	14,959	-
	<u>509,865</u>	<u>386,466</u>
 Costs and Expenses:		
Management fees to affiliates	93,443	91,956
Professional fees	38,089	51,197
Interest expense	-	258
General and administrative	106,992	100,489
	<u>238,524</u>	<u>243,900</u>
 Net income from continuing operations	 271,341	 142,566
 Income from discontinued operations	 <u>-</u>	 <u>1,473,783</u>
 Net income	 271,341	 1,616,349
 Net income attributable to noncontrolling interest	 <u>-</u>	 <u>352,042</u>
 Net income attributable to First Commonwealth Mortgage Trust	 <u>\$ 271,341</u>	 <u>\$ 1,264,307</u>
 Weighted average shares outstanding	 <u>1,408,171</u>	 <u>1,475,730</u>
 Net income per share, basic and diluted	 <u>\$ 0.19</u>	 <u>\$ 0.86</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Attributable to First Commonwealth Mortgage Trust	Attributable to Noncontrolling Interest	Total	Attributable to First Commonwealth Mortgage Trust	Attributable to Noncontrolling Interest	Total
Net Income	\$ 271,341	\$ -	\$ 271,341	\$ 1,264,307	\$ 352,042	\$ 1,616,349
Other Comprehensive Income (Loss):						
Unrealized gains (losses) on marketable securities	68,806	-	68,806	(22,175)	-	(22,175)
Reclassification of realized gain on sale of marketable securities	(30,773)	-	(30,773)	-	-	-
Net Comprehensive Income	<u>\$ 309,374</u>	<u>\$ -</u>	<u>\$ 309,374</u>	<u>\$ 1,242,132</u>	<u>\$ 352,042</u>	<u>\$ 1,594,174</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2016 and 2015

	Shares of Beneficial Interest		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total Shareholders' Equity	Noncontrolling Interest	Total Equity
	Shares Outstanding	Amount						
Balance , December 31, 2014	1,490,571	\$ 14,723,823	\$ (6,712,697)	\$ -	\$ -	\$ 8,011,126	\$ 2,533,447	\$ 10,544,573
Purchase of 82,400 shares of beneficial interest, at \$5.38 per share	(82,400)	-	-	-	(443,312)	(443,312)	-	(443,312)
Dividends/Distributions	-	-	(72,057)	-	-	(72,057)	(2,885,489)	(2,957,546)
Net income	-	-	1,264,307	-	-	1,264,307	352,042	1,616,349
Other comprehensive loss	-	-	-	(22,175)	-	(22,175)	-	(22,175)
Balance , December 31, 2015	1,408,171	14,723,823	(5,520,447)	(22,175)	(443,312)	8,737,889	-	8,737,889
Dividends	-	-	(154,899)	-	-	(154,899)	-	(154,899)
Net income	-	-	271,341	-	-	271,341	-	271,341
Other comprehensive income	-	-	-	38,033	-	38,033	-	38,033
Balance , December 31, 2016	<u>1,408,171</u>	<u>\$ 14,723,823</u>	<u>\$ (5,404,005)</u>	<u>\$ 15,858</u>	<u>\$ (443,312)</u>	<u>\$ 8,892,364</u>	<u>\$ -</u>	<u>\$ 8,892,364</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Net income	\$ 271,341	\$ 1,616,349
Income from discontinued operations	<u>-</u>	<u>(1,473,783)</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of land	-	(24,600)
Gain on sale of marketable securities	(30,773)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(98,070)	(91,918)
Other receivables	(4,730)	(12,221)
Prepaid expenses	(23,361)	28,873
Accounts payable and other liabilities	<u>1,531</u>	<u>10,701</u>
Total adjustments	<u>(155,403)</u>	<u>(89,165)</u>
Net cash provided by operating activities		
from continuing operations	115,938	53,401
Net cash used in operating activities		
from discontinued operations	<u>-</u>	<u>(195,789)</u>
Net cash provided by (used in) operating activities	<u>115,938</u>	<u>(142,388)</u>
Cash Flows from Investing Activities:		
Mortgage note originations	(564,077)	(1,199,025)
Principal collected on mortgage notes receivable	547,724	154,343
Purchase of certificate of deposit - restricted	(325,000)	-
Proceeds from affiliate	-	19,603
Proceeds from sale of land	-	31,225
Purchase of marketable securities	(511,039)	(774,531)
Proceeds from sale of marketable securities	<u>219,225</u>	<u>-</u>
Net cash used in investing activities		
from continuing operations	(633,167)	(1,768,385)
Net cash provided by investing activities		
from discontinued operations	<u>-</u>	<u>6,329,840</u>
Net cash provided by (used in) investing activities	<u>(633,167)</u>	<u>4,561,455</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Financing Activities:		
Payments on note payable	\$ -	\$ (28,391)
Dividends - shareholders	(154,899)	(72,057)
Purchase of treasury shares	<u>-</u>	<u>(443,312)</u>
Net cash used in continuing financing activities	(154,899)	(543,760)
Net cash used in financing activities from discontinued operations	<u>-</u>	<u>(2,885,489)</u>
Net cash used in financing activities	<u>(154,899)</u>	<u>(3,429,249)</u>
 Increase (decrease) in cash and cash equivalents	 (672,128)	 989,818
 Cash and Cash Equivalents, beginning of year	 <u>1,539,761</u>	 <u>549,943</u>
 Cash and Cash Equivalents, end of year	 <u>\$ 867,633</u>	 <u>\$ 1,539,761</u>
 Supplemental Information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 353</u>
 Noncash Investing and Financing Activities:		
Restricted cash offset with accounts payable and other liabilities	<u>\$ 16,509</u>	<u>\$ 21,282</u>
 Accrued interest rolled into mortgage notes receivable		 <u>\$ 41,000</u>
 Other receivables rolled into mortgage notes receivable		 <u>\$ 49,388</u>

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 Arizona.

Hillsborough River Properties, LLC (“Hillsborough”) was the development manager of the Heights of Tampa real estate in Florida. In 2015, the Trust held a majority interest in Hillsborough and was Hillsborough’s managing member. As discussed in Note 2, Hillsborough discontinued operations in 2015. Effective December 31, 2015, Hillsborough members determined that Hillsborough had fulfilled all of its intended business purposes and dissolved the entity.

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, 2016 and 2015 is \$16,509 and \$21,282, 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 0.23% 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

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 and 2015, 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, 2016 and 2015, five mortgage notes receivable customers represented approximately 68% and 70%, respectively, of total mortgage notes receivable. Interest related to four mortgage notes receivable was approximately 64% and 76% of interest income for 2016 and 2015, 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 4 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 income (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.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 or 2015.

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 a separate statement of comprehensive income. An analysis of changes in components of accumulated other comprehensive income 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. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2014-09 will have on the Trust's financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 makes the following changes to existing accounting principles generally accepted in the United States of America for entities that are not public business entities:

- Requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to determine impairment.
- Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost.
- Requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (that is, securities or loans and receivables) on the balance sheets or the accompanying notes to the financial statements.
- Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-01 will have on the Trust's financial statements.

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, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact ASU 2016-18 will have on the Trust's financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - DISCONTINUED OPERATIONS

During 2015, Hillsborough sold substantially all of its assets to a third party for \$6.5 million and made distributions to its noncontrolling interest members for approximately \$2.9 million. At December 31, 2015, Hillsborough was dissolved and its remaining cash was transferred to the Trust. The following is a summary of financial information related to Hillsborough's discontinued operations in 2015:

	<u>2015</u>
Revenue:	
Gain on sale of land and other assets	\$ 1,669,572
Miscellaneous income	<u>34</u>
	<u>1,669,606</u>
Costs and Expenses:	
Management fees to affiliates	125,000
Professional fees	34,374
General and administrative	<u>36,449</u>
	<u>195,823</u>
Income from discontinued operations	<u>\$ 1,473,783</u>
Cash Flows:	
Income from discontinued operations	\$ 1,473,783
Gain on sale of land and other assets	<u>(1,669,572)</u>
Net cash used in operating activities from discontinued operations	<u>\$ (195,789)</u>
Proceeds from sale of land and other assets	\$ 6,464,796
Purchase of land and other assets	<u>(134,956)</u>
Net cash provided by investing activities from discontinued operations	<u>\$ 6,329,840</u>
Distributions paid	<u>\$ 2,885,489</u>
Net cash used in financing activities from discontinued operations	<u>\$(2,885,489)</u>

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 - MARKETABLE SECURITIES

At December 31, 2016 and 2015, marketable securities consist of the following:

	2016			
	<u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Real estate investment trusts	\$ 845,720	\$18,006	\$ -	\$ 863,726
Preferred stock	<u>251,398</u>	<u>-</u>	<u>2,148</u>	<u>249,250</u>
	<u>\$1,097,118</u>	<u>\$18,006</u>	<u>\$2,148</u>	<u>\$1,112,976</u>
	2015			
	<u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Real estate investment trusts	\$461,287	\$ -	\$43,987	\$417,300
Mutual funds	99,546	10,434	-	109,980
Exchange traded funds	88,906	6,770	-	95,676
Preferred stock	<u>124,792</u>	<u>4,608</u>	<u>-</u>	<u>129,400</u>
	<u>\$774,531</u>	<u>\$21,812</u>	<u>\$43,987</u>	<u>\$752,356</u>

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 \$219,225 resulting in realized gains of \$30,773 in 2016. There were no sales of marketable securities in 2015.

NOTE 4 - FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Various inputs are used in determining fair value. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. 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.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Real estate investment trusts and preferred stock: Valued at the closing market price on a national exchange.

Mutual funds and exchange traded funds: Valued at net asset value (NAV) of shares held at year-end. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

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; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the assets; 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, 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 investments in marketable securities are not an indication of the risk associated with those investments.

The following tables sets forth by level, within the fair value hierarchy, the Trust's investments in marketable securities at fair value on a recurring basis at December 31, 2016 and 2015:

<u>Description</u>	<u>2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Real estate investment trusts ("REIT")	\$ 863,726			\$ 863,726
Preferred stock - REIT	<u>249,250</u>			<u>249,250</u>
Total marketable securities	<u>\$1,112,976</u>			<u>\$1,112,976</u>

<u>Description</u>	<u>2015</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Real estate investment trusts ("REIT")	\$417,300			\$417,300
Mutual funds - REIT	109,980			109,980
Exchange traded funds - REIT	95,676			95,676
Preferred stock - REIT	<u>129,400</u>			<u>129,400</u>
Total marketable securities	<u>\$752,356</u>			<u>\$752,356</u>

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 - 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, 2016 and 2015, 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, 2016 and 2015. The investment in Holly is recorded using the cost method.

At December 31, 2016 and 2015, 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 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 ending December 31, 2016 and 2015. 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>2016</u>	<u>2015</u>
Ordinary income	0%	0%
Return of capital	<u>100</u>	<u>100</u>
	<u>100%</u>	<u>100%</u>

As of December 31, 2016, the Trust has a federal net operating loss carryforward of approximately \$1,980,000 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 \$672,732 and \$123,321 at December 31, 2016 and 2015, respectively. The valuation allowance increased approximately \$549,000 in 2016.

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 2016 or 2015. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2013 and after.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 \$93,000 and \$92,000 for 2016 and 2015, respectively. Prepaid management fees to FCA were approximately \$23,000 at December 31, 2016. There were no prepaid management fees at December 31, 2015. 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, 2015, the Trust had a mortgage note receivable due from Holly. In 2015, the Trust entered into additional mortgage note agreements with Holly to finance certain outstanding accounts receivable for \$49,388 and to advance funds of \$24,025. The mortgage notes receivable due from Holly bear interest from 0.23% to 4%, are due at various dates from January 2016 to December 2017, and are included in mortgage notes receivable in the balance sheets. At December 31, 2015, mortgage notes receivable from Holly are \$108,057. In 2016, the mortgage notes receivable from Holly were collected in full. Interest income on the notes amounted to \$2,242 and \$3,016 for 2016 and 2015, respectively.

At December 31, 2016 and 2015, accounts receivable - affiliates, which are included in other receivables in the balance sheets, consist of:

	<u>2016</u>	<u>2015</u>
Global REIT, L.P. (affiliated through common management)	<u>\$20,000</u>	<u>\$20,000</u>
	<u>\$20,000</u>	<u>\$20,000</u>

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 - GUARANTEE OF HOLLY LONG-TERM DEBT

In October 2016, Holly entered into a \$325,000 loan agreement with First National Bank of Chickasa (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. The guarantee expires upon final payment on the loan in October 2018. In the event Holly defaults on the loan, the Trust

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 - GUARANTEE OF HOLLY LONG-TERM DEBT (CONTINUED)

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 \$325,000, plus reasonable associated legal fees, at December 31, 2016. In 2016, Holly paid the Trust \$3,250 as a loan guarantee fee, which is included in miscellaneous income in the statements of operations.

NOTE 10 - BOOK VALUE PER SHARE

Book value per share at December 31, 2016 and 2015 amounted to \$6.31 and \$6.21, respectively.

NOTE 11 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through February 9, 2017, the date the financial statements were available to be issued.

FIRST COMMONWEALTH MORTGAGE TRUST

BOARD OF TRUST MANAGERS

George Beatty, Jr.

Retired Environmental Consultant

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

William C. Brooks

Financial Consultant

Mr. Brooks also serves as a trust manager of Holly Mortgage Trust and Ivy Realty Trust.

Josef C. Hermans

Hotel Consultant

President, Terrace Hotel Corporation

Mr. Hermans also serves as a trust manager and or a director of Holly Mortgage Trust, Ivy Realty Trust and Terrace Hotel Corp.

William N. Walterman

Retired Banker

Mr. Walterman currently is serving his first term as Trust Manager.

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, Ivy Realty 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

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