

FIRST
COMMONWEALTH
MORTGAGE
TRUST

2003 ANNUAL REPORT

TO OUR SHAREHOLDERS:

Gross revenues, net revenue and net income per share of First Commonwealth Mortgage Trust (“FCM”) for the years ending December 31, 2003 and 2002 are shown in the following table together with the respective percentage change.

	<u>2003</u>	<u>2002</u>	<u>Change %</u>
Gross Revenues	\$1,303,915	\$1,239,561	5.2
Net Income	\$ 871,788	\$ 986,984	(11.7)
Net Income per Share	\$.71	\$.84	(15.5)

The increase in gross revenues relates entirely to interest on loans. Funds for the new loans were generated from a private placement in 2003 of 100,000 shares at \$10 per share. The decreases in net income and net income per share resulted from several factors:

- (1) A meat processing plant in Amarillo acquired through foreclosure was a non-productive asset throughout 2003. Anticipating the property would be sold at \$160,000 in February 2004, the bad debt reserve was increased by \$114,000, or 9 cents per share.
- (2) A loan on a San Antonio motel did not generate any interest income for several months while it was being renovated. FCM elected to defer the income while the borrower renovated the motel rooms, which enhanced the value of the collateral for the loan. FCM increased the bad debt reserve for this loan by \$75,000 or 6 cents per share.
- (3) FCM had significant cash on hand for several months that was invested in short term securities having minimal yields as annual money market rates were around one percent (1%) per annum.

FCM has continued to be able to find attractive loan opportunities despite the low interest rates prevailing throughout 2003. Many of FCM's investments are so-called *bridge loans*, also referred as *mezzanine financing*, where a borrower needs short term financing, often to rehab a commercial project, and intends to replace the loan later with long term permanent financing.

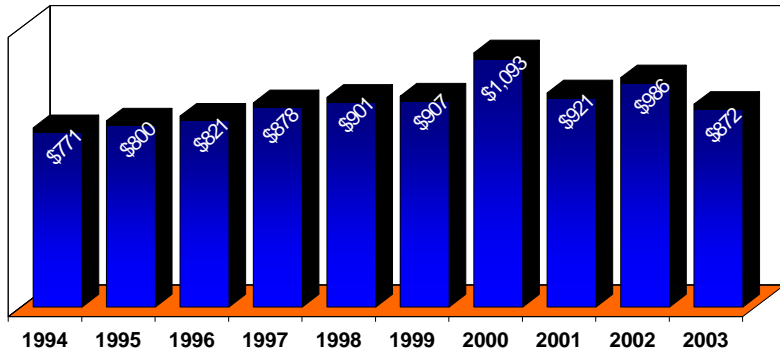
During 2003, loans totaling \$3.8 million were repaid, and all of these payments plus the proceeds from the stock offering were used to fund new loans or increase existing loans. The new loans were at annual rates averaging 11.67%. All loans, in management's judgment, have been made using conservative loan to value ratios. Where properties collateralizing a loan do not have an established cash flow, FCM has obtained additional collateral.

Although FCM's fixed interest rates are often higher than those quoted by other lenders, the borrower's total costs for a short term loan generally are competitive because FCM doesn't charge points or require borrowers to incur expenses for appraisals, engineering reports, etc.

A ten year summary of selected financial data and a description of all loans outstanding at the end of 2003 are shown on the following pages, and the 2003 financial statements audited by Mann Frankfort Stein & Lipp appear at the end of this report.

The charts on the next page show for the last ten years FCM's total net income and per share net income, dividends and book value.

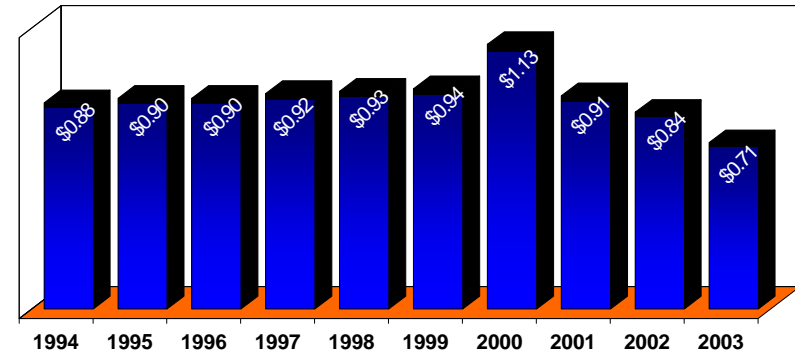
Net Income*



* In Millions

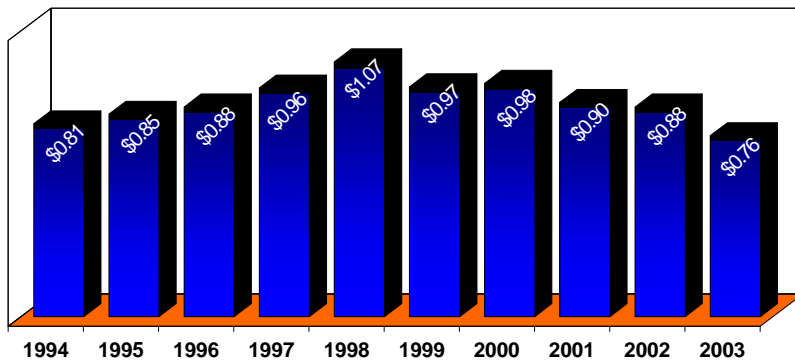
Although 2003 net income declined from 2002, total net income for 2003 reflects a 13% increase over 1994.

Net Income per Share



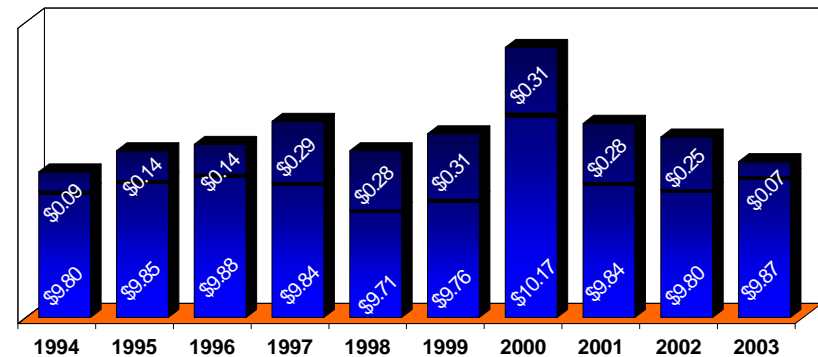
Net income per share has averaged 91 cents over the past five years. This is over a nine percent return on the original \$10 offering price.

Dividends per Share



Since FCM's inception in 1985, cumulative dividends total \$14.75.

Reserves per Share & Book Value per Share*



* Value on the bottom of each column represents book value per share and the values at the top represent reserves per share.

FCM's total book value per share, including reserves, at December 31, 2003 was \$9.94. FCM's book value per share increased due to issuance of new stock. The reserve per share decreased as a portion of the reserve was applied as described on the first page.

SELECTED FINANCIAL DATA 10-YEAR SUMMARY

YEAR ENDED DECEMBER 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
REVENUES:										
INTEREST AND DIVIDENDS	1,254,308	1,214,987	1,114,566	1,265,876	1,121,204	1,039,829	1,095,563	986,982	939,917	930,018
COMMITMENT FEES	10,000	3,000	1,000	2,500	2,000	8,428	9,584	4,893	19,490	11,125
OTHER REVENUE	39,607	21,574	19,066	27,925	33,734	34,889	122,486 ⁽²⁾	21,288	38,665	63,231 ⁽¹⁾
	1,303,915	1,239,561	1,134,632	1,296,301	1,156,938	1,083,146	1,227,633	1,013,163	998,072	1,004,374
COST AND EXPENSES	432,127	253,477	213,328	203,101	249,747	182,299	349,649	191,882	198,347	233,861
NET INCOME	871,788	986,084	921,304	1,093,200	907,191	900,847	877,984	821,281	799,725	770,513
PER SHARE DATA										
NET INCOME	\$ 0.71	\$ 0.84	\$ 0.91	\$ 1.13	\$ 0.94	\$ 0.93	\$ 0.92	\$ 0.90	\$ 0.90	\$ 0.88
DIVIDENDS	\$ 0.76	\$ 0.88	\$ 0.90	\$ 0.98	\$ 0.97 ⁽⁴⁾	\$ 1.07 ⁽³⁾	\$ 0.96	\$ 0.88	\$ 0.85	\$ 0.81
YEAR END DATA										
TOTAL ASSETS	13,242,074	11,746,086	10,582,576	9,568,768	9,749,670	10,429,390	9,526,482	9,555,860	9,311,376	8,892,409
SHAREHOLDERS' EQUITY	12,775,920	11,713,729	10,546,800	9,561,136	9,494,300	9,370,430	9,491,375	9,446,865	8,787,801	8,711,451
SHARES OUTSTANDING	1,294,671	1,194,671	1,071,671	970,403	972,323	965,363	964,283	955,703	891,333	888,333
BOOK VALUE PER SHARE	9.87	9.80	9.84	10.17	9.76	9.71	9.84	9.88	9.85	9.80

Includes gain of \$35,550 on sale of land

(1) Includes gain of \$29,702 on sale of securities

(2) Includes gain of \$79,062 on purchase of discounted note

(3) Includes \$.025/share Holly stock dividend

(4) Includes \$.087/share additional dividend paid in 2000

LOANS

The following tabulation summarizes all of the mortgage loans outstanding at December 31, 2003 either wholly or partially funded by FCM. Loans funded entirely by others but being serviced by FCM on a fee basis are not included.

<u>Original Principal Amount (1)</u>	<u>Maturity (2)</u>	<u>Interest Provisions (3)</u>	<u>Property Securing Loan (4)</u>
\$2,940,000	2004	12.5%	Office building in Phoenix, Arizona
\$1,500,000	2004	12%	Development properties in Tampa, Florida
\$1,375,000	2003	11%	Townhome lots in Houston, Texas
\$1,250,000	2018	10%	Commercial properties in Scottsdale, Arizona
\$1,220,000	2005	Discounted to yield 10.5%	Motel in San Antonio, Texas
\$1,141,000	2020	11%	Motel in San Antonio, Texas
\$1,000,000	2004	12%	Land in Tampa, Florida
\$1,000,000	2003	10%	Commercial Properties in Scottsdale, Arizona
\$630,000	2004	11.5%	Participation in second mortgage on urban village project near Santa Fe, New Mexico
\$500,000	2009	11.75%	Office building in Lakeland, Florida
\$402,701	2003	9.8%	Assets of Holly Mortgage Trust
\$250,000	2005	12%	Community shopping center in Pasadena, Texas
\$240,000	2003	10.25%	Restaurant in El Paso, Texas
\$235,000	2005	11%	Office building in Katy, Texas
\$200,000	2003	12%	Warehouse in Florida
\$165,825	2004	Variable Prime Rate	Office Building in Midland, Texas

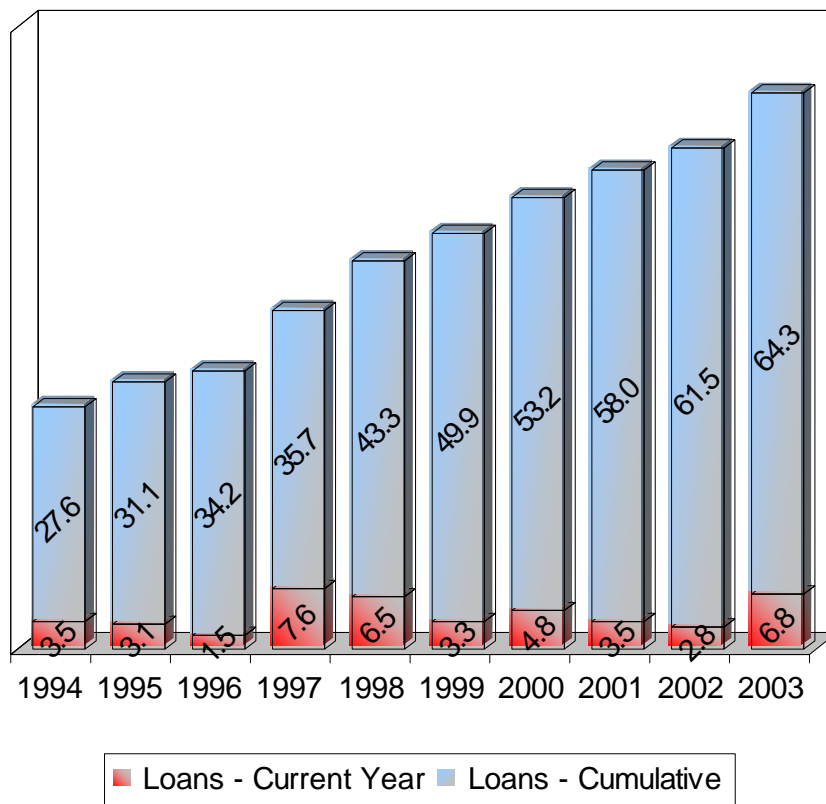
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\$150,000	2010	11%	54 Unit Apartment complex in Pasadena, California
\$109,450	2016	11.5%	Office building in Lakeland, Florida
\$ 80,000	2016	9.5%	Retail building in Chickasha, Oklahoma
\$ 30,000	2011	9.5%	House in Lakeland, Florida
\$ 30,000	2011	10.5%	House in Lakeland, Florida

- (1) Loan originated or purchased by FCM.
- (2) Most loans are amortized over periods longer than the terms of loans and there are balloon payments at maturity.
- (3) Percentages, unless otherwise noted, are annual interest rates.
- (4) All liens are first mortgages and all loans are with recourse to the borrower unless otherwise noted.

The following chart shows the dollar amount of loans originated by FCM each year since 1994 and the cumulative total of all loans since FCM began operations. Some loans originated by FCM have been funded in whole or in part, by third party participations.

FCM Loan History
(in Millions US\$)



Federal tax provisions for REITs now require that 90% of taxable income be distributed to shareholders. The dividends paid by FCM satisfied the distribution requirement for 2003.

Your management intends to continue to follow the conservative underwriting practices that have made FCM profitable every year.

/ s / Kenneth A. McGaw
Kenneth A. McGaw
Chairman of the Board & President

/ s / Robert P. Messer, Jr.
Robert P. Messer, Jr.
Executive Vice President

April 28, 2004

**FIRST COMMONWEALTH
MORTGAGE TRUST**

FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

FIRST COMMONWEALTH MORTGAGE TRUST
FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

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Independent Auditors' Report

To the Board of Trustees of
First Commonwealth Mortgage Trust
Houston, Texas

We have audited the balance sheets of First Commonwealth Mortgage Trust (the "Trust") as of December 31, 2003 and 2002, and the related statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Commonwealth Mortgage Trust at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Mann Frankfort Stein & Lipp CPAs, L.L.P.

Houston, Texas
March 17, 2004

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEETS

	December 31,	
	2003	2002
ASSETS		
Cash and cash equivalents	\$ 348,474	\$ 1,461,111
MORTGAGE NOTES RECEIVABLE, net		
Mortgage notes receivable, net of participations payable of \$2,131,037 and \$2,065,402 at December 31, 2003 and 2002, respectively	11,919,592	9,005,313
Discounts and deferred loan fees	(50,939)	(46,888)
Allowance for losses	(91,655)	(300,000)
TOTAL MORTGAGE NOTES RECEIVABLE, net	<u>11,776,998</u>	<u>8,658,425</u>
Notes receivable - affiliate	230,000	960,000
Accrued interest receivable	165,286	103,503
Other receivables	82,669	-
Prepays	120,117	251,183
Computer equipment and software, net	399	1,573
Property held for sale, net of impairment of \$397,345 and \$0 at December 31, 2003 and 2002, respectively	160,000	-
Investments in affiliates	208,131	208,131
Investments in marketable securities	150,000	102,160
TOTAL ASSETS	<u>\$ 13,242,074</u>	<u>\$ 11,746,086</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and other liabilities	\$ 16,153	\$ 32,356
Notes payable	450,001	1
TOTAL LIABILITIES	<u>466,154</u>	<u>32,357</u>
SHAREHOLDERS' EQUITY		
Shares of beneficial interest, no par value, unlimited shares authorized, 1,297,671 issued and 1,294,671 outstanding at December 31, 2003 and 1,197,671 issued and 1,194,671 outstanding at December 31, 2002	12,791,823	11,791,823
Retained earnings (accumulated deficit)	11,097	(53,250)
Accumulated other comprehensive income	-	2,156
	<u>12,802,920</u>	<u>11,740,729</u>
Less: treasury stock; 3,000 shares at cost	(27,000)	(27,000)
TOTAL SHAREHOLDERS' EQUITY	<u>12,775,920</u>	<u>11,713,729</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 13,242,074</u>	<u>\$ 11,746,086</u>

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF INCOME

	Year Ended December 31,	
	<u>2003</u>	<u>2002</u>
REVENUES		
Interest income	\$ 1,254,308	\$ 1,214,987
Service fees and miscellaneous income	49,607	24,574
	<u>1,303,915</u>	<u>1,239,561</u>
COSTS AND EXPENSES		
Advisory fees to affiliate	155,668	140,471
Provision for bad debts	189,000	-
General and administrative	87,459	113,006
	<u>432,127</u>	<u>253,477</u>
NET INCOME	<u>\$ 871,788</u>	<u>\$ 986,084</u>
NET INCOME PER SHARE, basic	<u>\$.71</u>	<u>\$.84</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>1,223,921</u>	<u>1,174,171</u>

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
 STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	<u>2003</u>	<u>2002</u>
NET INCOME	\$ 871,788	\$ 986,084
OTHER COMPREHENSIVE INCOME:		
UNREALIZED GAIN (LOSS) ON SECURITIES:		
Unrealized holding gains arising during period	1,187	6,490
Less: reclassification adjustment for net gains realized in net income	<u>(3,343)</u>	<u>(4,334)</u>
	<u>(2,156)</u>	<u>2,156</u>
COMPREHENSIVE INCOME	<u>\$ 869,632</u>	<u>\$ 988,240</u>

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003 AND 2002

	Shares of Beneficial Interest		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount				
Balance, January 1, 2002	1,071,671	\$ 10,561,823	\$ 11,977	\$ -	\$ (27,000)	\$ 10,546,800
Issuance of shares of beneficial interest for interest in affiliated partnership	15,000	150,000	-	-	-	150,000
Issuance of shares of beneficial interest	108,000	1,080,000	-	-	-	1,080,000
Cash dividends, \$0.90 per share	-	-	(1,051,311)	-	-	(1,051,311)
Comprehensive income:						
Net income	-	-	986,084	-	-	986,084
Unrealized gain on marketable securities	-	-	-	2,156	-	2,156
Total comprehensive income						<u>988,240</u>
Balance, December 31, 2002	1,194,671	11,791,823	(53,250)	2,156	(27,000)	11,713,729
Issuance of shares of beneficial interest	100,000	1,000,000	-	-	-	1,000,000
Cash dividends, \$0.66 per share	-	-	(807,441)	-	-	(807,441)
Comprehensive income:						
Net income	-	-	871,788	-	-	871,788
Unrealized loss on marketable securities	-	-	-	(2,156)	-	(2,156)
Total comprehensive income						<u>869,632</u>
Balance, December 31, 2003	<u>1,294,671</u>	<u>\$ 12,791,823</u>	<u>\$ 11,097</u>	<u>\$ -</u>	<u>\$ (27,000)</u>	<u>\$ 12,775,920</u>

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 871,788	\$ 986,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts and deferred loan fees	(3,311)	(2,795)
Depreciation	1,174	2,182
Provision for bad debts	189,000	-
Gain on sale of marketable equity securities	(3,343)	-
Change in operating assets and liabilities:		
Discounts and deferred loan fees	7,362	-
Accrued interest receivable	(163,114)	77,892
Prepays and other receivables	48,397	(228,588)
Accounts payable and other liabilities	(16,203)	(3,419)
NET CASH PROVIDED BY OPERATING ACTIVITIES	931,750	831,356
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage note originations	(7,150,655)	(5,592,036)
Mortgage note participations sold	370,000	2,767,597
Principal collected on mortgage notes receivable, net of participation	3,428,744	3,310,098
Advances on affiliate notes receivable	-	(710,000)
Proceeds from affiliate notes receivable	730,000	212,702
Payments on property held for investment	(18,382)	-
Proceeds from purchase of marketable securities	103,347	-
Purchase of marketable securities	(150,000)	(100,004)
NET CASH USED IN INVESTING ACTIVITIES	(2,686,946)	(111,643)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,000,000	1,080,000
Proceeds from issuance of debt	450,000	-
Cash dividends paid	(807,441)	(1,051,311)
NET CASH PROVIDED BY FINANCING ACTIVITIES	642,559	28,689
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,112,637)	748,402
CASH AND CASH EQUIVALENTS, beginning of year	1,461,111	712,709
CASH AND CASH EQUIVALENTS, end of year	\$ 348,474	\$ 1,461,111
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 11,595	\$ 20,870
Change in unrealized gain (loss) on marketable securities	\$ (2,156)	\$ 2,156
Accrued interest transferred to notes receivable	\$ 101,331	\$ -
Allowance for losses transferred to impairment on property held for investment	\$ 397,345	\$ -
Mortgage note receivable transferred to property held for investment	\$ 538,963	\$ -
Issuance of shares of beneficial interest in exchange for an interest in Global REIT, L.P.	\$ -	\$ 150,000

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

First Commonwealth Mortgage Trust (the "Trust") was organized as a Massachusetts business trust on September 26, 1984 and commenced operations on June 27, 1985. The Trust is engaged primarily in the business of investing in loans collateralized by mortgages on real estate projects. First Commonwealth Holdings Corporation ("FCHC"), whose principal shareholder is a trustee and shareholder of the Trust, is the Trust's compensated manager and advisor.

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

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

Mortgage Notes Receivable: Mortgage notes receivable are carried at unpaid principal balance since generally it is management's intention to hold mortgage notes to maturity. Commitment and origination fees collected from prospective borrowers are deferred and recognized as income using a method approximating the interest method over the life of those loans.

A loan is considered impaired when it is probable that the scheduled principal or interest will not be collected when due. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or collateral fair value, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment loss is recognized through a valuation allowance and a corresponding charge to income.

Allowance for Losses: 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 loan portfolio after giving consideration to existing economic conditions, loss experience in relation to outstanding loans, changes in the loan portfolio, borrowers' performance in reducing loan principal, adequacy of loan collateral, and other relevant factors.

Computer Equipment and Software: Computer equipment and software are stated at cost and are depreciated utilizing the straight-line method over an estimated useful life of three and five years, respectively. Depreciation expense for the Trust totaled \$1,174 and \$2,182 during the years ended December 31, 2003 and 2002, respectively.

Marketable Securities: Marketable securities are classified as available-for-sale and are stated at fair value, with unrealized gains and losses included in a separate component of shareholders' equity.

Interest Income: Interest income on loans is accrued based upon the principal amount outstanding.

If a loan is placed on nonaccrual status, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on such a loan is credited to principal if, in the opinion of management, collectibility of principal is doubtful; otherwise, the interest collected is recognized as revenue.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income is comprised of net income and all changes to shareholders' equity, except those due to investments by owners (changes in paid-in capital, if any) and distributions to owners (dividends). At December 31, 2003, the Trust had no unrealized holding gains or losses. At December 31, 2002, unrealized holding gains on securities available-for-sale are the Trust's only accumulated other comprehensive income component.

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.

Concentrations of Credit Risk: The Trust's primary business activity is investing in loans collateralized by mortgages on real estate projects. These loans are principally collateralized by real estate in Texas, Florida, New Mexico, Virginia, Arizona and Oklahoma.

Management Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE B - MORTGAGE NOTES RECEIVABLE AND COMMITMENTS

Notes receivable from funding mortgage loans are principally collateralized by first mortgage loans on commercial or residential property and are due at various dates, with the latest maturity due in 2025. Notes receivable bear interest at rates ranging from 9.5% to 15%.

Additionally, certain of the mortgage notes receivable contain equity features that may provide the Trust with income in excess of the stated rate of the notes, although realization of such income cannot be assured.

Commitments to lend additional funds were approximately \$387,100 at December 31, 2003. There are no commitments to lend additional funds to borrowers whose loans are impaired.

NOTE C - NOTES RECEIVABLE - AFFILIATE

At December 31, 2003 and 2002, the Trust has a note receivable of \$230,000 and \$400,000, respectively from an affiliated business trust (see Note D). The original amount of the note was \$602,702. Interest income related to this note for the years ended December 31, 2003 and 2002 was approximately \$24,800 and \$39,200, respectively. The note accrues interest at a rate of 9.8% and is payable quarterly. Principal may be paid at any time with unpaid principal due at December 31, 2004. The note is secured by a lien on the real estate assets of the affiliate.

FIRST COMMONWEALTH MORTGAGE TRUST
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003 AND 2002

NOTE C - NOTES RECEIVABLE - AFFILIATE (Continued)

At December 31, 2002, the Trust had a mortgage note receivable of \$560,000 from an affiliated business trust. Interest income related to this note was approximately \$40,500 and \$28,200 for the years ended December 31, 2003 and 2002, respectively. This note matured during 2003 and was paid in full.

During 2002, the Trust had two notes receivable that were paid off from an affiliated business trust (see Note D). Interest income related to these notes for the year ended December 31, 2002 was approximately \$14,400.

NOTE D - INVESTMENTS IN AFFILIATES

The Trust participates with Holly Mortgage Trust (“Holly”), a Massachusetts business trust, for the purpose of investing in second mortgages and equity participation mortgages. At December 31, 2002, the Trust also owns 58,131 shares of beneficial interest in Holly, which comprises approximately 4% of the outstanding shares in Holly. The investment is recorded using the cost method. At December 31, 2003 and 2002, the cost of this investment was \$58,131.

During 2002, the Trust issued 15,000 shares of beneficial interest in order to obtain an interest in Global REIT, L.P. The Trust accounts for this investment using the cost method of accounting. At December 31, 2003 and 2002, the cost of this investment was \$150,000.

NOTE E - MARKETABLE SECURITIES

From time to time, the Trust invests its excess funds in short-term equity securities in order to maximize earnings. The cost basis and fair market values of marketable securities available-for-sale were as follows:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2002:				
Available-for-sale securities	\$ 100,004	\$ 2,156	\$ -	\$ 102,160
December 31, 2003:				
Available-for-sale securities	\$ 150,000	\$ -	\$ -	\$ 150,000

NOTE F - NOTES PAYABLE

The Trust has four notes payable to individuals totaling \$450,000. The note agreements call for monthly interest payments until maturity during December 2004 when all outstanding principal and accrued interest is due. The notes bear interest at 4.5%.

During 2003, the Trust secured a \$200,000 revolving line of credit facility with a bank. The borrowing arrangement bears interest at 5%. Interest is payable monthly. This line of credit was unused as of December 31, 2003. The Trust is subject to certain restrictive covenants associated with its bank borrowings including, but not limited to, a ration of total liabilities to tangible net worth, as defined in the credit agreement. The Trust was in compliance with these covenants as of December 31, 2003.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE F - NOTES PAYABLE (Continued)

In addition, the Trust has a \$500,000 revolving line of credit facility with another bank, collateralized by the Trust's mortgage notes receivable. The borrowing arrangement bears interest at 8%. Interest is payable monthly. At December 31, 2003 and 2002, \$1 was outstanding under the line of credit. This line of credit is guaranteed by FCA and matures during June 2004.

For the years ended December 31, 2003 and 2002, interest expense was \$13,315 and \$20,870, respectively.

NOTE G - FEDERAL INCOME TAXES

The Trust operates in such a manner 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 is expected to satisfy the income distribution requirements for the year ending December 31, 2003. 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>2003</u>	<u>2002</u>
Ordinary income	<u>\$.66</u>	<u>\$.90</u>

NOTE H - ADVISORY AGREEMENT AND RELATED PARTY TRANSACTIONS

Advisory fees paid to FCHC were approximately \$156,000 and \$140,000 for the years ended December 31, 2003 and 2002, respectively. The advisory fee is based on 1.4% of the book value of the assets of the Trust at the end of each fiscal year. The advisory fee was net of an \$8,000 trustee fee at December 31, 2003 and 2002, which is paid directly to a FCHC employee.

During 2003, the Trust engaged in six mortgage participation receivables with various affiliated business trusts. At December 31, 2003, the Trust had four outstanding mortgage participation receivables that totaled \$1,137,619 and are included in mortgage notes receivable, net on the balance sheet. The participations incur interest at rates ranging from 11.5% to 14% (excluding possible contingent interest rates up to 8.5%) and maturity dates ranging from November 2004 to July 2010. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations was collected by the affiliates on the Trust's behalf amounted to approximately \$110,000 for the year ended December 31, 2003.

FIRST COMMONWEALTH MORTGAGE TRUST
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NOTE H - ADVISORY AGREEMENT AND RELATED PARTY TRANSACTIONS (Continued)

During 2002, the Trust engaged in six mortgage participations receivable with various affiliated business trusts. At December 31, 2002, the Trust had four outstanding mortgage participation receivables that totaled \$1,028,458 and are included in Mortgage Notes Receivable, net on the Balance Sheet. The participations incur interest at rates ranging from 9.5% to 15% (excluding possible contingent interest rates up to 8.5%) and maturity dates ranging from April 2003 to March 2007. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations was collected by the affiliates on the Trust's behalf amounted to approximately \$173,300 for the year ended December 31, 2002.

During 2003, the Trust engaged in two mortgage participations payable with an officer of the Trust. At December 31, 2003, the Trust had one outstanding mortgage participation receivable that totaled \$125,000 and is included in Mortgage Notes Receivable, net on the Balance Sheet. The participation incurs interest at 12% and matures May 2004. The note is secured by an affiliated business trust. Interest collected on this participation and passed through to the participant was approximately \$16,900 for the year ended December 31, 2003.

During 2002, the Trust engaged in two mortgage participations payable with an officer of the Trust. At December 31, 2002, the Trust had two outstanding mortgage participation receivables that totaled \$225,458 and are included in Mortgage Notes Receivable, net on the Balance Sheet. The participations incur interest at rates ranging from 10% to 12% and maturity dates ranging from August 2003 to May 2004. The notes are secured by various affiliated business trusts and/or second mortgages. Interest collected on these participations and passed through to the participant was approximately \$16,900 for the year ended December 31, 2002.

NOTE I - SIGNIFICANT MORTGAGE NOTES RECEIVABLE

In 2003, the Trust derived approximately 26% of its interest income from two mortgage notes. At December 31, 2003, these mortgage notes comprise approximately 27% of the mortgage notes receivable, net of participations payable.

In 2002, the Trust derived approximately 22% of its interest income from two mortgage notes. At December 31, 2002, these mortgage notes comprise approximately 12% of the mortgage notes receivable, net of participations payable.