

**FIRST
COMMONWEALTH
MORTGAGE
TRUST**

2010 ANNUAL REPORT

TO OUR SHAREHOLDERS:

The financial statements of First Commonwealth Mortgage Trust (“FCMT”) for the years ending December 31, 2010 and 2009, audited by Melton & Melton, L.L.P. are set forth at the end of this report. In 2010 FCMT took an impairment loss, discussed below, which resulted in revenues declining from \$1,549,865 in 2009 to \$933,256 in 2010 primarily from the non-accrual of interest on two loans. Notes receivable were also written down by \$2,692,506. The net result is a comprehensive net loss of \$2,204,941, or a per share loss of \$1.48.

A significant part of FCMT’s mortgage portfolio involves loans on parts of the Heights of Tampa (“HOT”), an assemblage of approximately 50 acres in Tampa, Florida situated along the Hillsborough River north of the downtown business district. The HOT is basically comprised of the three parcels show below each of which was separately financed.



As previously reported, last year a bank holding a first mortgage on the Riverfront Properties and second mortgages on the other two parcels began foreclosure proceedings on its first mortgage. Efforts by the owners of HOT to conclude arrangements with the bank to permit the development to move ahead were unsuccessful. Eventually the bank sold its secured note and the purchaser completed the foreclosure in January 2011.

Another recent development is the bank holding the first mortgage on the Land Assemble parcel is considering foreclosure. This is the parcel that has the most infrastructure already in place. FCMT at December 31, 2010 held \$1,900,000 principal of the \$6,795,105 outstanding on the loan.

On the TAW parcel, \$3 million is held by FCMT, with \$825,000 in participations, and the other \$5 million is held by an individual. These loans are also in default and foreclosure is a possibility.

The HOT property, in the management's opinion, still constitutes a prime area for development because of its proximity to downtown Tampa, location along the Hillsborough River and being the site of a building having some historical significance. However, until the obstacles posed by the second mortgages are eliminated and the economy improves enough to stimulate new construction, the value of the HOT is diminished from what it was and the impairment loss addresses that diminution in value. FCMT is on a cash basis for tax purposes and the impairment doesn't impact taxable income available for dividends. The amounts FCMT will eventually recover on its HOT loans cannot be predicted, but if they exceed the new carrying values, the excess would be treated as income.

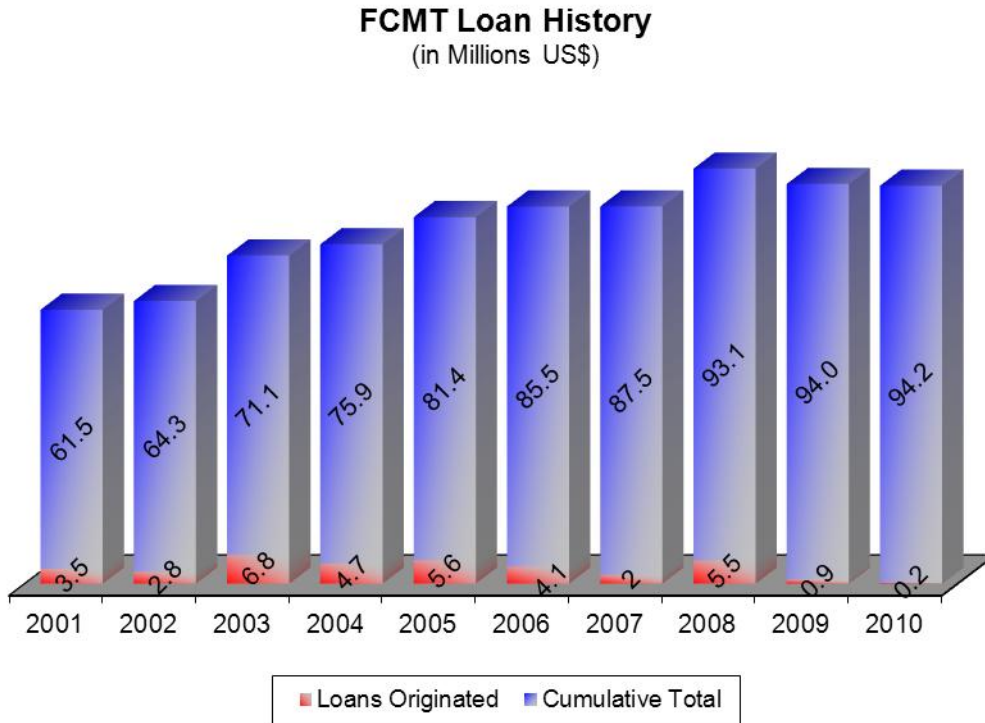
At December 31, 2010, excluding the two HOT loans on which interest is not being accrued, FCMT had 15 other loans outstanding with an average yield of 10.1% p.a.

The financial chart of FCMT on the next page shows the results of its operations for the last five years.

SELECTED FINANCIAL DATA 10-YEAR SUMMARY

| YEAR ENDED DECEMBER 31 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|-----------------------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| REVENUES: | | | | | | | | | | |
| INTEREST AND DIVIDENDS | \$ 925,327 | \$1,515,653 | \$ 1,391,789 | \$ 1,450,931 | \$ 1,671,581 | \$ 1,281,159 | \$ 1,451,632 | \$ 1,254,308 | \$ 1,214,987 | \$ 1,114,566 |
| SERVICE FEES & OTHER INCOME | <u>7,929</u> | <u>34,211</u> | <u>44,402</u> | <u>93,252</u> | <u>49,152</u> | <u>84,429</u> | <u>51,612</u> | <u>49,607</u> | <u>24,574</u> | <u>20,066</u> |
| | 933,256 | 1,549,864 | 1,436,191 | 1,544,183 | 1,720,733 | 1,365,588 | 1,503,244 | 1,303,915 | 1,239,561 | 1,134,632 |
| COST AND EXPENSES | 3,138,197 | 221,852 | 219,378 | 275,175 | 289,445 | 353,734 | 745,674 | 432,127 | 253,477 | 213,328 |
| NET INCOME | \$ (2,204,941) | \$ 1,328,016 | \$ 1,216,813 | \$ 1,269,008 | \$ 1,431,288 | \$ 1,011,854 | \$ 757,570 | \$ 871,788 | \$ 986,084 | \$ 921,304 |
| PER SHARE DATA | | | | | | | | | | |
| NET INCOME | \$ (1.48) | \$ 0.89 | \$ 0.84 | \$ 0.91 | \$ 1.03 | \$ 0.73 | \$ 0.58 | \$ 0.71 | \$ 0.84 | \$ 0.91 |
| DIVIDENDS | \$ 0.50 | \$ 0.70 | \$ 0.86 | \$ 0.88 | \$ 0.88 | \$ 0.78 | \$ 0.88 | \$ 0.76 | \$ 0.88 | \$ 0.90 |
| YEAR END DATA | | | | | | | | | | |
| TOTAL ASSETS | \$ 11,718,581 | \$ 14,616,813 | \$ 14,294,804 | \$ 13,280,585 | \$ 13,364,650 | \$ 13,174,650 | \$ 13,398,297 | \$ 13,242,074 | \$ 11,746,086 | \$ 10,582,576 |
| SHAREHOLDERS' EQUITY | 11,566,416 | 14,522,101 | 14,235,478 | 13,256,564 | 13,285,038 | 13,093,632 | 12,959,716 | 12,775,920 | 11,713,729 | 10,546,800 |
| SHARES OUTSTANDING | 1,490,571 | 1,490,571 | 1,490,571 | 1,391,571 | 1,391,571 | 1,391,571 | 1,381,571 | 1,294,671 | 1,194,671 | 1,071,671 |
| BOOK VALUE PER SHARE | \$ 7.76 | \$ 9.74 | \$ 9.55 | \$ 9.53 | \$ 9.55 | \$ 9.41 | \$ 9.38 | \$ 9.87 | \$ 9.80 | \$ 9.84 |

The following chart shows the dollar amount of loans originated by FCMT each year since 2001 and the cumulative total of all loans since FCMT began operations. Some loans originated by FCMT have been funded in whole or in part, by third party participations.



FCMT maintains a website www.fcmt.net that contains additional information about the Trust. Annual reports are posted on the website along with notices of dividend declarations.

Kenneth A. McGaw
President

Robert A. Burns
Vice President & Treasurer

April 29, 2011

FIRST COMMONWEALTH MORTGAGE TRUST

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2010 AND 2009
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



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

FIRST COMMONWEALTH MORTGAGE TRUST

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

April 29, 2011

To the Board of Trust Managers of
First Commonwealth Mortgage Trust

We have audited the accompanying balance sheet of First Commonwealth Mortgage Trust (the "Trust") as of December 31, 2010 and 2009, and the related statements of operations, comprehensive income (loss), changes in 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 as of December 31, 2010 and 2009, 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 of America.

Melton & Melton, L.L.P.

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEET
December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|-----------------------------|-----------------------------|
| <u>ASSETS</u> | | |
| Mortgage Notes Receivable: | | |
| Mortgage notes receivable, net of participations payable of \$1,400,000 and \$1,600,000 at December 31, 2010 and 2009, respectively | \$ 12,580,350 | \$ 12,671,188 |
| Discounts | (77,859) | (132,371) |
| Allowance for losses | <u>(1,755,277)</u> | <u>(186,814)</u> |
| | 10,747,214 | 12,352,003 |
| Cash and cash equivalents | 59,236 | 463,186 |
| Restricted cash and cash equivalents | 119,374 | 181,830 |
| Accrued interest receivable, net of participations interest payable of \$10,723 and \$65,587 at December 31, 2010 and 2009, respectively | 408,855 | 1,385,204 |
| Note receivable | 139,000 | - |
| Other receivables | 15,153 | 6,929 |
| Investments in affiliates | 226,995 | 208,131 |
| Investments in marketable securities | 2,754 | 2,400 |
| Prepaid expenses | <u>-</u> | <u>20,000</u> |
| | <u>\$ 11,718,581</u> | <u>\$ 14,619,683</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-----------------------------|-----------------------------|
| Liabilities: | | |
| Accounts payable and other liabilities | \$ 52,164 | \$ 97,581 |
| Note payable | <u>100,001</u> | <u>1</u> |
| Total liabilities | <u>152,165</u> | <u>97,582</u> |
| Shareholders' Equity: | | |
| Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,490,571 shares issued and outstanding | 14,723,823 | 14,723,823 |
| Accumulated deficit | (3,004,349) | (54,122) |
| Accumulated other comprehensive loss | <u>(153,058)</u> | <u>(147,600)</u> |
| | 11,566,416 | 14,522,101 |
| | <u>\$ 11,718,581</u> | <u>\$ 14,619,683</u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|------------------------------|----------------------------|
| Revenue: | | |
| Interest income | \$ 925,327 | \$ 1,515,653 |
| Service fees and miscellaneous income | <u>7,929</u> | <u>34,212</u> |
| | <u>933,256</u> | <u>1,549,865</u> |
| Costs and Expenses: | | |
| Management fees to affiliate | 125,777 | 86,952 |
| Professional fees | 41,206 | 34,934 |
| Interest expense | 3,277 | 18,263 |
| Impairment loss on notes receivable and accrued interest | 2,884,937 | - |
| General and administrative | <u>83,000</u> | <u>81,703</u> |
| | <u>3,138,197</u> | <u>221,852</u> |
| Net income (loss) | <u><u>\$ (2,204,941)</u></u> | <u><u>\$ 1,328,013</u></u> |
| Weighted average shares outstanding | <u><u>1,490,571</u></u> | <u><u>1,490,571</u></u> |
| Net income (loss) per share, basic | <u><u>\$ (1.48)</u></u> | <u><u>\$ 0.89</u></u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENT OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|------------------------------|----------------------------|
| Net income (loss) | \$ (2,204,941) | \$ 1,328,013 |
| Other comprehensive gain (loss): | | |
| Unrealized gain (loss) on marketable securities: | | |
| Unrealized holding gains (losses) arising | | |
| during the year | <u>(5,458)</u> | <u>2,010</u> |
| Comprehensive income (loss) | <u>\$ (2,210,399)</u> | <u>\$ 1,330,023</u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2010 and 2009

| | Shares of Beneficial Interest | | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|--|----------------------------------|----------------------|------------------------|---|----------------------------------|
| | Shares Outstanding | Amount | | | |
| Balance, December 31, 2008 | 1,490,571 | \$ 14,723,823 | \$ (338,735) | \$ (149,610) | \$ 14,235,478 |
| Cash dividends | | (1,043,400) | | | (1,043,400) |
| Net income | | 1,328,013 | | | 1,328,013 |
| Unrealized gain on marketable securities | | | | 2,010 | 2,010 |
| Balance, December 31, 2009 | 1,490,571 | 14,723,823 | (54,122) | (147,600) | 14,522,101 |
| Cash dividends | | | (745,286) | | (745,286) |
| Net loss | | | (2,204,941) | | (2,204,941) |
| Unrealized loss on marketable securities | | | | (5,458) | (5,458) |
| Balance, December 31, 2010 | <u>1,490,571</u> | <u>\$ 14,723,823</u> | <u>\$ (3,004,349)</u> | <u>\$ (153,058)</u> | <u>\$ 11,566,416</u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|------------------|--------------------|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$(2,204,941) | \$ 1,328,013 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Stock dividend received | (5,812) | - |
| Amortization of discounts and deferred loan fees | (54,512) | (60,657) |
| Impairment loss on notes receivable and accrued interest | 2,884,937 | - |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable, net of participations | (340,124) | (567,652) |
| Prepaid expenses and other receivables | 11,776 | (17,809) |
| Accounts payable and other liabilities | 17,039 | 38,256 |
| Total adjustments | <u>2,513,304</u> | <u>(607,862)</u> |
| Net cash provided by operating activities | <u>308,363</u> | <u>720,151</u> |
| Cash Flows from Investing Activities: | | |
| Mortgage note originations | (255,510) | (680,400) |
| Mortgage note participations sold | - | 550,000 |
| Mortgage note participations purchased | (200,000) | (1,200,000) |
| Principal collected on mortgage notes receivable, net of participations | 546,347 | 1,105,099 |
| Note receivable | (139,000) | - |
| Change in restricted cash and cash equivalents | - | (161,950) |
| Increase in investments in affiliates | (18,864) | - |
| Net cash used in investing activities | <u>(67,027)</u> | <u>(387,251)</u> |
| Cash Flows from Financing Activities: | | |
| Proceeds from note payable | 100,000 | - |
| Cash dividends paid | (745,286) | (1,043,400) |
| Net cash used in financing activities | <u>(645,286)</u> | <u>(1,043,400)</u> |
| Decrease in cash and cash equivalents | (403,950) | (710,500) |
| Cash and Cash Equivalents, beginning of year | <u>463,186</u> | <u>1,173,686</u> |
| Cash and Cash Equivalents, end of year | <u>\$ 59,236</u> | <u>\$ 463,186</u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| Supplemental Information: | | |
| Cash paid for interest | <u>\$ 3,277</u> | <u>\$ 18,263</u> |
| Non-Cash Investing and Financing Activities: | | |
| Mortgage note received as payment for accrued interest | | <u>\$ 3,750</u> |
| Restricted cash offset with accounts payable and accrued liabilities | <u>\$ 19,374</u> | <u>\$ 81,830</u> |

(See Notes to Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

First Commonwealth Mortgage Trust (the "Trust") was organized on September 26, 1984 and commenced operations on June 27, 1985. The Trust is a Texas real estate investment trust. The Trust has 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. First Commonwealth Holdings Corporation ("FCHC"), whose principal shareholder is a trust manager and shareholder of the Trust, is the Trust's compensated manager.

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.

Restricted Cash and Cash Equivalents

The Trust collects escrow deposits for property taxes related to property listed as collateral for one mortgage note. In 2009, the Trust also collected insurance proceeds of \$67,128 that were used for repairs on the above property in 2010. Included in accounts payable and other liabilities at December 31, 2010 and 2009 are \$19,374 and \$81,830 for deposits into the escrow account.

The Trust purchased a \$100,000 certificate of deposit in 2009 to serve as collateral for the Heights of Tampa, LLC letter of credit (see Note 2).

The balance of restricted cash and cash equivalents at December 31, 2010 and 2009 was \$119,374 and \$181,830, respectively.

Mortgage Notes Receivable

Mortgage notes receivable are carried at unpaid principal balances 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.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During 2010, management determined that the collectibility of certain mortgage notes receivable and corresponding accrued interest receivable was impaired and collection was not certain. As a result, the valuation allowance was increased by \$1,568,463 for the mortgage notes receivable during 2010. Accrued interest, net of participation interest payable, on these mortgage notes of \$1,316,474 was written off in 2010. No interest was recognized on these mortgage notes receivable or participations in 2010. The mortgage notes receivable of \$4,300,000, net of mortgage participations of \$825,000, are currently on nonaccrual status. Management believes the remaining value of the impaired mortgage notes receivable, net of participations payable, represents the fair value of the mortgage notes receivable collateral at December 31, 2010.

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.

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.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) 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, 2010 and 2009, unrealized holding gains (losses) on securities available-for-sale are the Trust's only accumulated other comprehensive loss component.

Net Income (Loss) per Share

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

Concentrations of Credit Risk

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

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Such estimates include the value of collateral and, therefore, the resulting allowance for losses. 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.

NOTE 2 - 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 May 2020. Notes receivable bear interest at rates ranging from 7% to 18%.

Commitments to lend additional funds were approximately \$1,850,000 at December 31, 2010. There are no commitments to lend additional funds to borrowers whose loans are impaired.

Contingent Liability

The Trust has guaranteed a stand-by letter of credit in connection with a Land Swap Agreement for Heights of Tampa, LLC in the amount of \$500,000. There are no amounts drawn on this letter of credit as of December 31, 2010 and 2009. In February 2011, the City of Tampa drew down \$500,000 on this letter of credit.

NOTE 3 - INVESTMENTS IN AFFILIATES

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, 2010 and 2009, 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, 2010 and 2009. The investment is recorded using the cost method. The cost of this investment was \$58,131 at December 31, 2010 and 2009.

The Trust owned 168 and 150 partnership units of Global REIT, L.P at December 31, 2010 and 2009, respectively. The Trust accounts for this investment using the cost method of accounting. The cost of this investment was \$168,864 and \$150,000 at December 31, 2010 and 2009, respectively.

Investments with an aggregate cost of \$226,995 and \$208,131 at December 31, 2010 and 2009, respectively, were not evaluated for impairment because (a) the Trust did not estimate the fair value of those investments in accordance with FASB Accounting Standards Codification (ASC) 825, *Disclosure about Fair Value of 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 those investments.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 4 - 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:

| | <u>Cost Basis</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> |
|--------------------|-----------------------|---------------------------------------|--|-----------------------|
| December 31, 2010: | | | | |
| Common stock | <u>\$155,812</u> | <u>\$ -</u> | <u>\$(153,058)</u> | <u>\$2,754</u> |
| December 31, 2009: | | | | |
| Common stock | <u>\$150,000</u> | <u>\$ -</u> | <u>\$(147,600)</u> | <u>\$2,400</u> |

NOTE 5 - FAIR VALUES

The Trust accounts for fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 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. A summary of the fair value hierarchy under ASC 820 is described below:

Various inputs are used in determining the value of the Trust's financial instruments. These inputs are summarized in the three broad levels listed below:

Level 1 - Quoted prices in active markets for identical securities.

Common stock: Valued based on quoted prices in an active market.

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).

Level 3 - Significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments).

Impaired Mortgage Notes Receivable, net of Participations Payable: The fair value of impaired mortgage notes receivable is based on the estimated fair value of the underlying collateral.

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 that 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 methodology used for valuing 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, 2010 and 2009.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 5 - FAIR VALUES (CONTINUED)

The following is a summary of the inputs used to value the Trust's financial instruments as of December 31, 2010 and 2009:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|--------------------|--------------------|
| <u>2010:</u> | | | | |
| Marketable Securities: | | | | |
| Common Stock | <u>\$2,754</u> | | | <u>\$ 2,754</u> |
| Impaired mortgage notes receivable, net of participations payable - nonrecurring | | | <u>\$1,719,723</u> | <u>\$1,719,723</u> |
| <u>2009:</u> | | | | |
| Marketable Securities: | | | | |
| Common Stock | <u>\$2,400</u> | | | <u>\$ 2,400</u> |

NOTE 6 - NOTE PAYABLE

The Trust has a \$500,000 revolving line of credit facility with a bank, collateralized by the Trust's mortgage notes receivable. The borrowing arrangement bears interest at 9%. Interest is payable monthly. At December 31, 2010 and 2009, \$100,001 and \$1 were outstanding under the line of credit, respectively. This line of credit will mature in September 2011.

NOTE 7 - 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, 2010 and 2009. 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>Years Ended December 31,</u> | |
|-------------------|---------------------------------|-------------|
| | <u>2010</u> | <u>2009</u> |
| Ordinary income | 49% | 69% |
| Return of capital | <u>51</u> | <u>31</u> |
| | <u>100%</u> | <u>100%</u> |

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

NOTE 7 - FEDERAL INCOME TAXES (CONTINUED)

The amount of income taxes the Trust pays is subject to audits by federal and state tax authorities. The Trust's estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time, pursuant to ASC 740, *Income Taxes*. ASC 740 requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Trust records a liability for the difference, if any, between the benefit recognized and measured pursuant to ASC 740 and the tax position taken or expected to be taken on the tax return. To the extent that the Trust's assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

The Trust reports tax-related interest and penalties in income tax expense.

At December 31, 2010 and 2009, the Trust had no material uncertain tax positions. There were no accruals for tax-related interest and penalties at December 31, 2010 and 2009. The Trust did not have any tax-related interest and penalties for the years ended December 31, 2010 and 2009. The tax years 2007 through 2009 remain open and subject to examination by federal and various state tax jurisdictions.

NOTE 8 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

Management fees paid to FCHC were approximately \$126,000 and \$87,000 for the years ended December 31, 2010 and 2009, respectively. The management fee is based on 1.4% of the book value of the assets of the Trust at the end of each prior fiscal year less accounting and certain board member fees. In 2010 and 2009, FCHC received fees for management services to Heights of Tampa, LLC, which was a borrower from the Trust. Some of those fees were voluntarily credited by FCHC against the management fee otherwise payable by the Trust to avoid FCHC being compensated twice. The voluntary credit to the Trust in 2010 and 2009 totaled \$37,975 and \$75,550, respectively.

During 2010, the Trust engaged in three mortgage participations with various affiliated business trusts. At December 31, 2010, the Trust had four outstanding mortgage participations with affiliated businesses that totaled \$6,775,000 and are included in mortgage notes receivable, net in the balance sheet. The participations incur interest at rates ranging from 7% to 18% (excluding possible contingent interest rates) and have maturity dates ranging to December 2014. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations amounted to approximately \$173,000 for the year ended December 31, 2010. At December 31, 2010, accrued interest on mortgages with affiliated businesses amounted to \$9,674.

During 2009, the Trust engaged in two mortgage participations with various affiliated business trusts. At December 31, 2009, the Trust had three outstanding mortgage participations with affiliated businesses that totaled \$6,775,000 and are included in mortgage notes receivable, net in the balance sheet. The participations incurred interest at rates ranging from 7% to 18% (excluding possible contingent interest rates) and had maturity dates ranging to December 2014. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations amounted to approximately \$694,000 for the year ended December 31, 2009. At December 31, 2009, accrued interest receivable on mortgages with affiliated businesses amounted to \$1,297,805.

FIRST COMMONWEALTH MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

**NOTE 8 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS
(CONTINUED)**

In 2009, the Trust paid interest of \$15,834 to Holly for a \$362,000, 8% promissory note that matured on December 31, 2009. The note was paid in full as of December 31, 2009.

At December 31, 2010, the Trust had a promissory note receivable from Ivy Realty Trust, a related trust, for \$139,000. The promissory note matures in February 2011.

NOTE 9 - SIGNIFICANT MORTGAGE NOTES RECEIVABLE

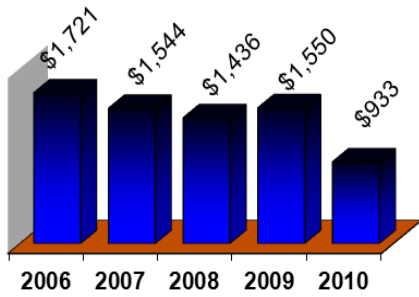
At December 31, 2010, three mortgage notes receivable represented approximately 54% of total mortgage notes receivable, net of participations. Interest related to four notes was approximately 66% of total interest income for the year ended December 31, 2010. Two notes are on nonaccrual status.

At December 31, 2009, three mortgage notes receivable represented approximately 52% of total mortgage notes receivable, net of participations. Interest related to two of these notes was approximately 52% of total interest income for the year ended December 31, 2009.

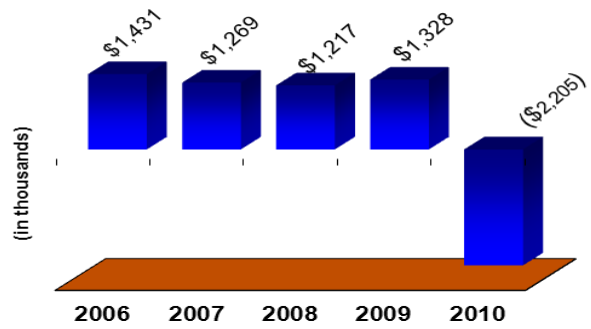
NOTE 10 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through April 29, 2011, the date the financial statements were available to be issued.

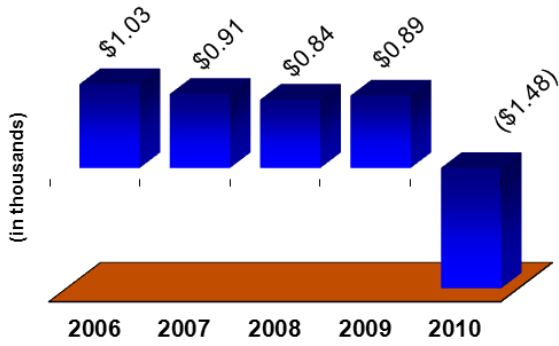
Revenues (000's)



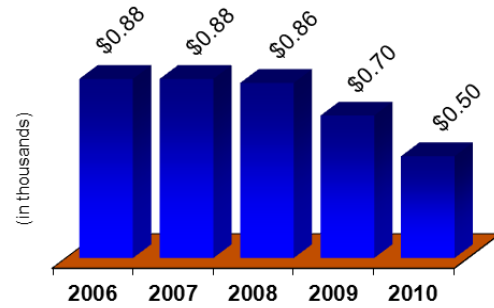
Net Income (000's)



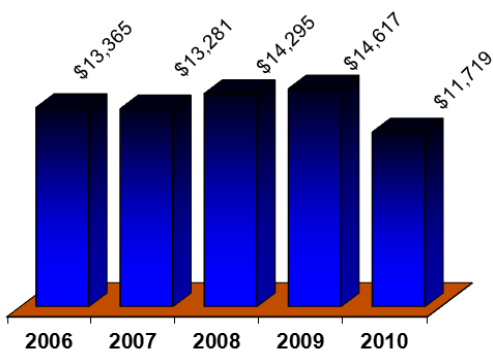
Net Income per Share



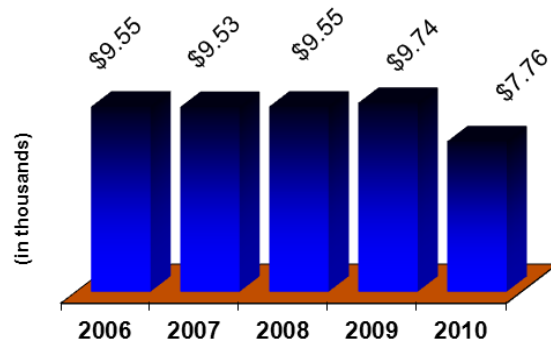
Dividends per Share



Total Assets (000's)



Book Value per Share



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President, George Beatty Associates

William C. Brooks
Financial Consultant

Josef C. Hermans
Hotel Consultant

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President,
First Commonwealth Mortgage Trust

Robert W. Scharar
President,
Holly Mortgage Trust, First Commonwealth Holdings Corporation and FCA Corp

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Vice President and Treasurer

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