First Community Bank is Your First Financial Resource™

Dear Stockholders and Friends

We are extremely pleased to bring you this 2003 report on the operations of First Community Bancshares, Inc. This past year has been one of challenge but great accomplishment. Throughout 2003, short-term interest rates persisted at 45-year lows and resulted in continued refinance opportunities. Economic conditions, although slowly improving, have curtailed regional growth and expansion making growth of credit portfolios difficult. In the third quarter of 2003, rate volatility in the 30-year mortgage rate disrupted mortgage operations and curtailed origination volume.

However, despite these challenging market conditions your Company has posted another year of record results. These record results were achieved even in the face of an extensive expansion program which our Company has initiated as part of its new strategic direction. In 2003, we invested heavily in new branches, personnel and technology. These investments laid a strong foundation for the Company's planned growth in metro markets and its geographic diversification of banking operations. We are pleased that we were able to achieve strong and improving results of operations even as we absorbed the start-up costs of establishing de novo branches, employed key production personnel and integrated newly acquired divisions. These costs should be recouped in subsequent periods as we begin to realize the benefits of our new commercial and retail outlets and penetration of new markets. With exposure to larger, more vibrant economic regions, we believe that we greatly diminish our risk and position the Company for strong growth by capturing even small shares in a growing number of strong markets within our defined region. This plan is supported by personnel and technologies capable of efficiently spanning our newly conceptualized financial services network.

In 2003, First Community Bancshares achieved asset growth of 9.7% and posted record earnings of $25.2 million. Total equity reached a record $175 million while the book value per share of our common stock climbed $1.55 to $15.57. Dividends grew 7.7% from $.91 per share to $.98. The market capitalization of the Company grew to $372.8 million, up from $304.1 million at year-end 2002. These represent solid financial accomplishments in a year marked by a challenging environment and investment in the future.

Net income of $25.2 million for the full year of 2003 compares with $24.7 million in 2002. The $500,000 increase was achieved despite a $2.0 million decline in net income from the mortgage banking segment. Mortgage banking results for the year declined as a result of a substantial reduction in the pipeline of loan applications at year-end 2003 which, in turn, led to a decline in the mark-to-market valuation. Margins in the mortgage segment were also reduced as national investors curtailed servicing premiums and as mortgage broker buy rates increased in the third quarter.

Net income in the community banking segment reached new highs at $26.3 million, up from $24 million in 2002. The banking segment benefited from increased volumes in net interest

margin derived largely from acquisition activity. Net interest income increased $3.5 million due to volume increases in average earning assets. Non-interest revenues also increased, up $1.66 million due to improvement in service charge revenues and a $1.59 million increase in securities gains.

Consolidated results of operations yielded a 1.56% return on average assets versus 1.68% in 2002. Return on equity for the 2003 year was 15.13%, down from 17.16% in 2002 as a result of growth in equity and the issuance of common stock in the CommonWealth acquisition. Basic earnings per share increased from $2.26 per share in 2002 to $2.27 per share in 2003 while diluted earnings per share remained constant at $2.25 per share.

Again in 2003 First Community Bancshares was named one of the "Top 100 Publicly Traded Mid-Tier Banks in the Nation" according to the *US Banker* based on return on equity measures of the nation's largest banks (excluding the fifty largest). We were also very pleased to be named as one of the most efficient banks in the nation according to a national survey by the *American Banker*.

Asset quality, which is so critical to the success of a financial institution, continued its improving trends during 2003. As outstanding loans grew to record levels, non-performing loans dropped, both as a percentage of the portfolio and in absolute dollars. Non-accrual loans decreased to $2.99 million and represent .3% of total loans. Ninety-day accruing loans were reduced to zero and other real estate owned decreased to $2.1 million, down from $2.9 million. Overall, non-performing assets as a percentage of total loans and other real estate dropped from .6% to .5% between December 31, 2002 and 2003. This represents a 17% decrease over the last year and a 56% decrease over the last two years. During that same two-year timeframe, the reserve coverage ratio on non-performing assets increased from 174.1% to 287.7%. Improvements in asset quality reflect the Company's continued enhancement of credit underwriting and monitoring as well as our aggressive efforts to resolve delinquent, non-performing loans and liquidation efforts on other real estate owned.

As mentioned earlier in this report, we have committed substantial resources this past year to the re-development and execution of our strategic plan. This work throughout 2003 has significantly changed the direction of the Company and helped to lay a solid foundation for future growth. As part of this plan, we announced three strategic acquisitions during 2003. Two of those acquisitions were closed in the first half of the year and the third is pending closing at the writing of this report. On January 15, 2003, the Company acquired Stone Capital Management, Inc., a registered investment advisory firm. This marks the Company's first venture into the wealth management area and a key addition to our array of financial services, augmenting our strong base of trust and fiduciary services.

John M. Mendez
President and CEO

In June of 2003, we completed the acquisition of The CommonWealth Bank in Richmond, Virginia. This was our first entry in the $20 billion Richmond market and our first exposure to newly identified metro markets as part of the Company's strategic plan. CommonWealth brings a strong base of business and customer relationships in the Richmond area and promises to be a strong source of growth in the months and years to come as we position our Company as the community bank alternative of choice filling the gap between the service failures of the super regionals and the limited resources and service offerings of many community banks.

In the third and fourth quarters of 2003, we opened three new offices in Winston-Salem, North Carolina. These de novo operations are also part of our three pronged approach to market expansion. Although these offices are newly organized, they are staffed with seasoned professionals with strong market linkages and we are confident in their ability to generate assets and profitable customer relationships which will make the new locations contributors to our consolidated results.

On December 31, 2003, we signed and announced our third acquisition for 2003. PCB Bancorp, Inc., the holding company for People's Community Bank in Johnson City, Tennessee, is a $172 million community banking organization operating five offices in the Tri-Cities area of East Tennessee. We are pleased that we continue to be able to attract quality community banking organizations who, like us, believe that banking is all about people and service. This affiliation is expected to be complete by the close of the first quarter in 2004. We are very anxious to welcome our new partners in Johnson City and we look forward to an immediate positive contribution from this superior community banking group.

First Community Bancshares' common stock continued to perform well with an 18.5% increase in market value over the course of 2003. This follows total returns of 72.4% and 18.7% in 2001 and 2002. These returns, including quarterly dividend payments, produce a three-year total return of 149.8%. Regular dividend payments were increased again in 2003 for the 19th consecutive year with a 7.8% increase in 2003.

First Community elevated its stock listing to the NASDAQ® National Market in the second quarter of 2003. As a member of the NASDAQ National Market, we commit ourselves to the highest standards of corporate governance and compliance with listing rules published by NASDAQ and approved by the Securities and Exchange Commission. In 2003, NASDAQ revised these rules in response to recent legislation. We are pleased to report our recent adoption of new rules and recommendations. In 2003 our Company validated the independence of the majority of our standing board and reviewed committee membership for independence of Audit Committee and Nominating Committee members. Our Nominating Committee was recently formed for the purpose of reviewing board membership, performance and capabilities and to serve as a search and screening body for future director nominees.

As we close this report on another successful year of operations at First Community Bancshares, we call your attention to our new format for this year's report. The color sections of the report detail our newly adopted mission statement and focus on our ever expanding corporate capabilities. We expect that this communication piece will be used throughout the year as we recruit new talent, present our services to prospective customers and introduce our Company to new partners. The financial sections of the report are included in the financial insert which includes our full report on Form 10-K.

We sincerely appreciate your support throughout the year as both stockholders and customers of First Community Bancshares and First Community Bank. We hope that you will continue to place your confidence in this Company and its people through use of our services, where convenient, and through your support as one of our valued investors. On behalf of the board, management and staff of the First Community Bancshares family, we thank you and we pledge our service.

Sincerely,

John M. Mendez
President & Chief Executive Officer

Financial Highlights

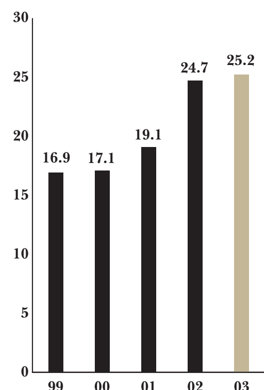
(Amounts in Thousands, Except Percent and Per Share Data)

Earnings and Dividends	**2003**	2002	2001
Net income	**$ 25,238**	$ 24,719	$ 19,134
Basic earnings per share	**2.27**	2.26*	1.75*
Diluted earnings per share	**2.25**	2.25*	1.75*
Cash dividends per share	**0.98**	0.91*	0.81*
Return on average equity	**15.13%**	17.16%	14.80%
Return on average assets	**1.56%**	1.68%	1.49%

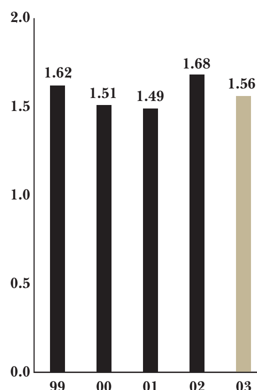
Balance Sheet Data at Year-End	**2003**	2002	2001
Total assets	**$1,672,727**	$1,524,363	$1,478,235
Deposits	**1,225,617**	1,139,727	1,078,260
Securities sold under agreements to repurchase	**97,651**	91,877	79,262
FHLB borrowings and other indebtedness	**162,387**	124,357	145,320
Stockholders' equity	**175,035**	152,462	133,041

** Prior period per share amounts adjusted to reflect stock dividends.*

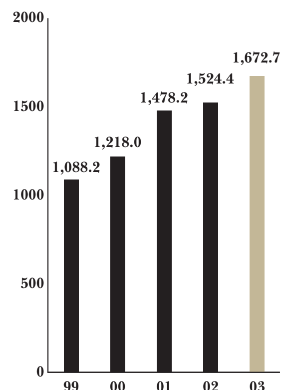
Net Income ($)
(Amounts in millions)



Return on Average Assets (%)



Total Assets ($)
(Amounts in millions)



Financial Information

Corporate Headquarters
One Community Place
P.O. Box 989
Bluefield, Virginia 24605-0989
(276) 326-9000
(276) 326-9010 Fax

Stock Registrar and Transfer Agent
Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
(800) 368-5948

Form 10-K
The Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available to shareholders upon request to the Chief Financial Officer of First Community Bancshares, Inc. or through the Company's website.

Financial Contact
Robert L. Schumacher
Chief Financial Officer
First Community Bancshares, Inc.
P.O. Box 989
Bluefield, Virginia 24605-0989
Phone: (276)326-9000

Internet Access
Website: www.fcbinc.com
E-mail: ir@fcbinc.com
Website: www.fcbresource.com
E-mail: marketing@fcbinc.com

Mission Statement

First Community Bank…

Offering competitive products, impeccable service, building financial partnerships, proving our value every day as our customers' First Financial Resource.

About the Company

First Community Bancshares, Inc. is a multi-state holding company headquartered in Bluefield, Virginia, with total assets of $1.9 billion* and is the holding company for First Community Bank, N. A.

As the largest bank headquartered in Virginia, First Community Bank operates 51* full-service banking locations and two trust and investment management offices in the four-state region of Virginia, West Virginia, North Carolina and Tennessee*. First Community Bank is also the parent company of Stone Capital Management, Inc., an SEC registered investment advisory firm and United First Mortgage, Inc., which operates eight mortgage brokerage facilities throughout Virginia. First Community Bank is a top performer in the financial industry and was recently ranked in *US Banker* as a Top 100 Publicly Traded Mid-Tier Bank.

First Community Bancshares, Inc. is traded on the NASDAQ® National Market under the symbol "FCBC."

** Includes pending acquisition of PCB Bancorp Inc. in Tennessee.*

At First Community Bank, we pledge to offer competitive products, impeccable service, build financial partnerships and prove our value every day as our customers' First Financial Resource. Our mission is powerful and we like it that way, because it is precisely this type of ambitious thinking, customer-focused commitment and dedication to ideals that has always been at the foundation of our success.

First Community Bank is ranked among the top banks in the nation.

Over the years, First Community Bank has built a reputation for steadfast financial management. In fact, during 2003 we were ranked among the nation's Top 100 Publicly Traded Mid-Tier Banks by *US Banker*. This ranking was determined based on our strong three-year average return on equity. In addition, we were also named as one of the most efficient banks in the nation according to a national survey by the *American Banker*. We have built a company that is not only innovative, but financially strong and respected by its peers.

First Community Bank's parent company First Community Bancshares is listed on the NASDAQ® National Market (Nasdaq: "FCBC"). First Community Bancshares is also a Russell 3000 Company based on its standing as one of the 3,000 largest U.S. companies based on market capitalization.

Personal Banking

At First Community Bank, we pride ourselves on our personal banking skills. We show this by our dedication to building relationships with each and every customer. Our commitment to our customers' needs is more than just a smile and a friendly hello — you can trust First Community Bank, because the people making the decisions regarding your accounts, loans and other banking needs are right there in your hometown.

As personal bankers, we offer a wide variety of products and services to fit your individual personal needs.

- Just Free Checking
- Ideal Checking (NOW) Account
- Preferred Tiered Money Market
- Secure Checking Club Account
- Senior Secure Checking Club Account
- Like Kind Exchange
- Preferred Savings
- Resource-FCB Online Banking & Bill Pay
- Online Brokerage Services
- Index Powered CD
- Insurance Services
- 24-Hour ATMs
- VISA Debit Check Cards
- VISA Debit Gift Cards
- Unsecured/Secured Credit Cards with Travel Rewards
- Phone Banking
- Overdraft Protection
- Personal Loans

Mortgage Services

At First Community Bank, there's no faraway decision-maker deciding the fate of your loan. All decisions are made locally, which makes the process faster and more convenient for you. First Community Bank is about local people making local decisions for you.

- Adjustable Rate Mortgage
- Fixed Rate Mortgage
- Home Equity
- Construction Loans
- Secondary Market Loans
- Silverline Personal Line of Credit

Commercial Banking Services

First Community has the resources and expertise to fulfill our commercial customers' financial objectives. At First Community Bank, we offer a comprehensive range of products that can be customized to fit your specific needs. We are the business behind your business providing innovative financial solutions delivered in a personal way. Whether your business needs are for traditional banking services or for highly specialized products, First Community Bank is a capable partner for your company.

- Transaction Accounts
- Online Cash Management
- Treasury Services
- Online Bill Pay
- ACH Origination
- Wire Transfers
- Lock Box Processing
- Image Statement and Archive
- Repurchase Agreements
- Like Kind Exchange
- Long and Short Term Investments
- Fraud Detection
- Employee Benefit Plans
- Insurance Services
- CD-ROM Statements
- Commercial Credit Cards
- Merchant Processing Services
- Phone Banking

Commercial Lending

First Community Bank can meet your borrowing needs with end-to-end loan solutions tailored for your company. Your loan relationship is managed by people you know that are experienced in providing innovative credit products. First Community possesses large bank lending capacity that is delivered through an efficient local decision-making process ensuring fast approvals.

- Lines of Credit
- Working Capital
- Floor Planning
- Land Acquisition and Development
- Inventory
- Long Term Assets
- Receivables
- Investment Property
- Equipment Loans
- SBA Loans
- Agriculture Loans
- Construction Loans

Wealth Management Solutions

At First Community Bank, whether you are planning for your future, accumulating your wealth or just want to develop a strategic financial plan to meet your goals, we provide a wide range of wealth management solutions. Our experienced investment advisors through Stone Capital Management, Inc., a subsidiary of First Community Bank and the Trust & Financial Services Division can manage your financial assets and develop a personal plan that is custom-tailored to your needs.

Investment and Brokerage Solutions

- Wealth Management/ Investment Advice
- Financial Planning
- Asset Allocation
- Full-Service Brokerage
- Online Brokerage
- Personal Trust
- Personal Financial Care
- Estate Settlement
- Employee Benefits
- Agency/Custody Accounts
- Investment Advisory Accounts
- Investment Management Accounts
- Hedging and Diversifying Concentrated Stock Positions
- Insurance and Annuities

While the majority of First Community Bank branches are located in rural communities, the company has been branching out beyond its traditional market areas. With a growth strategy targeting metropolitan areas, First Community Bank completed the acquisition of The CommonWealth Bank in Richmond, Virginia in 2003. In addition, we recently opened three new offices in Winston Salem, North Carolina.

And We're Growing.

The Company intends to continue this strategy of expansion—through further acquisition and by opening locations in new and existing markets—as opportunities are presented for intelligent growth.

In addition to First Community's bricks-and-mortar expansion, the bank has significantly bolstered its lines of business through acquisitions. Entering the mortgage business, First Community acquired United First Mortgage, based in Richmond, Virginia, which offers a full complement of secondary mortgage services. The bank also entered the wealth management and investment arena with its purchase of Stone Capital Management, Inc. of Beckley, West Virginia.

ANNUAL REPORT ON FORM 10-K
DECEMBER 31, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from:________ to________

Commission File Number 0-19297

First Community Bancshares, Inc.

(Exact name of Registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
One Community Place, Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (276) 326-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:
Common stock, par value $1 per share
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ________

Indicate by check mark whether Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2003.

$370,507,246 based on the closing sales price at that date
Common Stock, $1 par value

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of March 5, 2004.

Common Stock, $1 par value- 11,242,396

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders to be held April 27, 2004 are incorporated by reference in Part III of this Form 10-K.

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Part I

Item 1. *Business*

General

First Community Bancshares, Inc. (''FCBI'' or the ''Company'', ''Corporation'' or ''Registrant'') is a one-bank holding company incorporated in the State of Nevada and serves as the holding company for First Community Bank, N. A. (''FCBNA'' or the ''Bank''), a national association that conducts commercial banking operations within the states of Virginia, West Virginia and North Carolina. United First Mortgage, Inc. (''UFM''), acquired in the latter part of 1999, is a wholly owned subsidiary of FCBNA and serves as a wholesale and retail distribution channel for FCBNA's mortgage banking business segment. FCBNA also owns Stone Capital Management (''Stone Capital''), an investment advisory firm purchased in January, 2003. The Company has total consolidated assets of approximately $1.7 billion at December 31, 2003 and conducts commercial and mortgage banking business through the 47 branches of FCBNA and 8 mortgage brokerage offices.

In January 2003, the Bank completed the acquisition of Stone Capital, based in Beckley, West Virginia. This acquisition expanded the Bank's operations to include a broader range of financial services, including wealth management, asset allocation, financial planning and investment advice. Stone Capital at December 31, 2003 had total assets of $59 million under management and continues to operate under its name. Stone Capital was acquired through the issuance of 8,409 shares of Company common stock, which represents 50% of the total consideration. In 2003, Stone Capital exceeded the annual revenue requirement outlined in the acquisition agreement and another 2,541 shares were paid to the original shareholders subsequent to December 31, 2003. The balance of the remaining consideration ($175,000) is payable over the next two years in the form of Company common stock subject to revenue minimums outlined in the acquisition agreement.

On June 6, 2003, the Company acquired The CommonWealth Bank, a Virginia-chartered commercial bank (''CommonWealth'') for total consideration of approximately $23.2 million. CommonWealth's four branch facilities located in the Richmond, Virginia metro area were simultaneously merged with and into the Bank. The completion of this transaction resulted in the addition of $136.5 million in assets, including $120.0 million in loans and added an additional $105.0 million in deposits to the Bank. As a result of the preliminary purchase price allocation, the $14.1 million excess of purchase price over the fair market value of the net assets acquired and identified intangibles was recorded as goodwill.

On December 31, 2003, the Company announced the signing of a definitive merger agreement pursuant to which the Company will acquire PCB Bancorp, Inc., a Tennessee-chartered bank holding company (''PCB Bancorp''). This acquisition will expand First Community Bank's commercial banking operations into East Tennessee, the Company's first entry into the Tennessee market. PCB Bancorp has five full service branch offices located in Johnson City, Kingsport and surrounding areas in Washington and Sullivan Counties in East Tennessee. PCB Bancorp, which is headquartered in Johnson City, Tennessee, had total assets of $172 million, total deposits of $149 million and total stockholders' equity of $13.6 million as of December 31, 2003.

Under the terms of the merger agreement, shares of PCB Bancorp common stock will be purchased for $40.00 per share in cash. The total deal value, including the cash-out of outstanding stock options, is approximately $36.0 million. Concurrent with the PCB Bancorp merger, Peoples Community Bank, the wholly-owned subsidiary of PCB Bancorp, will be merged into the Bank. The merger is expected to close late in the first quarter of 2004, pending the receipt of all requisite regulatory approvals and the approval of PCB Bancorp's shareholders.

Currently, the Registrant is a bank holding company and the banking operations are expected to remain the principal business and major source of revenue. The Registrant provides a mechanism for ownership of the subsidiary banking operations, provides capital funds as required and serves as a conduit for distribution of dividends to stockholders. The Registrant also considers and evaluates options for growth and expansion of the existing subsidiary banking operations. The Registrant currently derives substantially all of its revenues from dividends paid by its subsidiary bank. Dividend payments by the Bank are determined in relation to earnings, asset growth and capital position and are subject to certain restrictions by regulatory agencies as described more fully under Regulation and Supervision of this item.

At December 31, 2003, the principal assets of FCBI included all of the outstanding shares of common stock of the Bank. FCBNA is a nationally chartered bank organized under the banking laws of the United States. FCBNA engages in general commercial and retail banking business in West Virginia, Virginia and North Carolina through 47 branch facilities. It provides safe deposit services and makes all types of loans, including commercial, mortgage and personal loans. FCBNA also provides trust services and its bank deposits are insured by the FDIC. FCBNA is a member of the Federal Reserve System and is a member of the Federal Home Loan Bank (FHLB) of Atlanta. Regulatory oversight of the banking subsidiary is conducted by the Office of the Comptroller of the Currency (OCC). FCBNA, through its wholly owned subsidiary, UFM, provides for the origination and sale of mortgages to secondary sources. With the addition of Stone Capital in January, 2003, FCBNA's range of financial services was expanded to include wealth management, asset allocation, financial planning and investment advice. The required information concerning reportable segments and the required disclosures are set forth in Note 18 of the Consolidated Financial Statements included herein.

Forward-Looking Statements

The Company may from time to time make written or oral "forward-looking statements", including statements contained in its filings with the Securities and Exchange Commission ("SEC") (including this Annual Report on Form 10-K and the Exhibits hereto and thereto), in its reports to stockholders and in other communications which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include, among others, statements with respect to the Company's beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (many of which are beyond the Company's control). The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Company's financial performance to differ materially from that expressed in such forward-looking statements; the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the timely development of competitive new products and services of the Company and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions; the growth and profitability of the Company's non-interest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Risk Factors

FCBI and its subsidiary's business are subject to interest rate risk and variations in interest rates may negatively affect its financial performance. We are unable to predict actual fluctuations of market interest rates with complete accuracy. Rate fluctuations are affected by many factors, including:

- inflation;
- recession;
- a rise in unemployment;
- tightening money supply; and
- domestic and international disorder and instability in domestic and foreign financial markets.

Changes in the interest rate environment may reduce profits. We expect that the Company and FCBNA will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. The Company is vulnerable to continued declines in interest rates because of its slightly asset-sensitive balance sheet profile, in which its assets will reprice downward at rates exceeding the repricing characteristics of liabilities. As a result, material and prolonged declines in interest rates would decrease the Company's net interest income and corresponding net interest margin. Conversely, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect the Company's net interest spread, asset quality, levels of prepayments and cash flows as well as the market value of its securities portfolio and overall profitability.

Changes in interest rates affect the net interest income earned on the Company's debt securities portfolios as well as the value of the securities portfolio. In addition, changes in interest rates affect the net interest income FCBNA and UFM earn on loans held for investment and loans held for sale. To the extent UFM pools loans in the future and is not adequately hedged, its interest rate and market risk with respect to its loans held for sale may increase. Consequently, changes in the levels of market interest rates could materially and adversely affect the Company's net interest spread, the market value of the loans and securities and the overall profitability.

FCBNA's ability to pay dividends is subject to regulatory limitations which, to the extent FCBI requires such dividends in the future, may affect FCBI's ability to pay its obligations and pay dividends. FCBI is a separate legal entity from FCBNA and its subsidiaries and does not have significant operations of its own. FCBI currently depends on FCBNA's cash and liquidity as well as dividends from the subsidiary to pay FCBI's operating expenses and dividends to shareholders. No assurance can be made that in the future FCBNA will have the capacity to pay the necessary dividends and that the Company will not require dividends from FCBNA to satisfy FCBI's obligations. The availability of dividends from FCBNA is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Company and other factors that the OCC could assert that payment of dividends or other payments by FCBNA are an unsafe or unsound practice. In the event FCBNA is unable to pay dividends sufficient to satisfy FCBI's obligations and FCBNA is unable to pay dividends to the Company, FCBI may not be able to service its obligations as they become due, including payments required to be made to the FCBI Capital Trust, a business trust subsidiary of FCBI, or pay dividends on the Company's common stock. Consequently, the inability to receive dividends from FCBNA could adversely affect FCBI's financial condition, results of operations, cash flows and prospects.

FCBI's allowance for loan losses may not be adequate to cover actual losses. Like all financial institutions, we maintain an allowance for loan losses to provide for probable loan defaults and non-performance. FCBI's allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect FCBI's operating results. FCBI's allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, the opinions of our regulators, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond FCBI's control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review FCBI's loans and allowance for loan losses. While we believe that FCBI's allowance for loan losses is adequate to provide for probable losses, we cannot assure you that we will not need to increase FCBI's allowance for loan losses or that regulators will not require us to increase this allowance. Either of these occurrences could materially and adversely affect FCBI's earnings and profitability.

FCBI's business is subject to various lending and other economic risks that could adversely impact FCBI's results of operations and financial condition. Changes in economic conditions, particularly an economic slowdown, could hurt FCBI's business. FCBI's business is directly affected by political and market conditions, broad trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond FCBI's control. A deterioration in economic

conditions, in particular an economic slowdown within the Company's geographic region, could result in the following consequences, any of which could hurt FCBI's business materially:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for FCBI's products and services may decline; and
- collateral for loans made by the Company may decline in value, in turn reducing a client's borrowing power, and reducing the value of assets and collateral associated with FCBI's loans held for investment.

A downturn in the real estate market could hurt FCBI's business. FCBI's business activities and credit exposure are concentrated in West Virginia, Virginia, North Carolina and the surrounding mid-Atlantic region. A downturn in this regional real estate market could hurt FCBI's business because of the geographic concentration within this regional area. If there is a significant decline in real estate values, the collateral for FCBI's loans will provide less security. As a result, FCBI's ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans.

The Company's level of credit risk is increasing due to the expansion of its commercial lending, and the concentration on middle market customers with heightened vulnerability to economic conditions. At December 31, 2003, this portfolio was $386.8 million, an increase of $26.8 million since December 2002. Although the total loan portfolio increased, the level of credit risk remained relatively consistent as the commercial lending percentage mix was little changed. Commercial real estate loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial business loans involve risks because the borrower's ability to repay the loan typically depends primarily on the successful operation of the business or the property securing the loan. Most of the commercial business loans are made to middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made by the Company in the last several years and the borrowers may not have experienced a complete business or economic cycle.

FCBNA may suffer losses in its loan portfolio despite its underwriting practices. FCBNA seeks to mitigate the risks inherent in FCBNA's loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although FCBNA believes that its underwriting criteria are appropriate for the various kinds of loans it makes, FCBNA may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in FCBNA's allowance for loan losses.

The Company and its subsidiaries are subject to extensive regulation which could adversely affect them. FCBI and its subsidiaries' operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of FCBI's operations. FCBI believes that it is in substantial compliance in all material respects with applicable federal, state and local laws, rules and regulations. Because FCBI's business is highly regulated, the laws, rules and regulations applicable to it are subject to regular modification and change. There are currently proposed various laws, rules and regulations that, if adopted, would impact FCBI's operations, including, among other things, matters pertaining to corporate governance, requirements for listing and maintenance on national securities exchanges and over the counter markets, SEC rules pertaining to public reporting disclosures and banking regulations governing the amount of loans that a financial institution, such as FCBNA, can acquire for investment from an affiliate, such as UFM. In addition, the Financial Accounting Standards Board, or FASB, is considering changes which may require, among other things, the expensing of the costs relating to the issuance of stock options. There can be no assurance that these proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive, restrict FCBI's ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by FCBNA or UFM or otherwise adversely affect FCBI's business, financial condition or prospects.

FCBI faces strong competition from other financial institutions, financial service companies and other organizations offering services similar to those offered by the Company and its subsidiaries, which could hurt FCBI's business. FCBI's business operations are centered primarily in West Virginia, Virginia, North Carolina and the surrounding mid-Atlantic region. Increased competition within this region may result in reduced loan originations and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the types of loans and banking services that we offer. These competitors include other savings associations, national banks, regional banks and other community banks. FCBI also faces competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, FCBNA's competitors include other state and national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger clients. These institutions, particularly to the extent they are more diversified than FCBI, may be able to offer the same loan products and services that FCBI offers at more competitive rates and prices. If FCBI is unable to attract and retain banking clients, FCBI may be unable to continue FCBNA's loan and deposit growth and the Company's business, financial condition and prospects may be negatively affected.

Employees

The Registrant and its subsidiary, FCBNA, employed 591 full time equivalent employees at December 31, 2003, while UFM employed 75 people. Management considers employee relations to be excellent.

Regulation and Supervision

The following discussion sets forth the material elements of the regulatory framework applicable to the Company and the Bank. This regulatory framework primarily is intended for the protection of depositors and the deposit insurance funds that insure deposits of banks, and not for the protection of security holders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to those provisions. A change in the statutes, regulations or regulatory policies applicable to the Company or its subsidiaries may have a material effect on its business.

Regulation of the Company

General. The Company is a bank holding company within the meaning of the Bank Holding Act of 1956, as amended (''BHCA''), and is registered as such with the Board of Governors of the Federal Reserve System. The registrant is required to file with the Board of Governors quarterly reports of the Company and the Bank and such other information as the Board of Governors may require. The Federal Reserve makes periodic examinations of the Company, typically on an annual basis.

BHCA Activities and Other Limitations. The BHCA prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve Board.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the BHCA. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities including land development, property management and underwriting of life insurance not related to credit transactions, are not closely related to banking and a proper incident thereto.

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders' equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital), less goodwill and, with certain exceptions, intangibles. Tier II capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Single-family residential first mortgage loans which are not past-due (90 days or more) or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighting system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics. At December 31, 2003, the Company's Tier I capital and total capital ratios were 13.26% and 14.55%, respectively.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total assets of 3.0%. Total assets for this purpose does not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Tier I leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies are expected to maintain Tier I leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition. The Company's leverage ratio, at December 31, 2003, was 8.83%.

Trust Preferred Securities. Historically, issuer trusts that issued trust preferred securities have been consolidated by their parent companies and the accounts of such issuer trusts have been included in the consolidated financial statements of such parent companies. However, in January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", or FIN 46, which provides guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 was effective immediately for interests in variable interest entities acquired after January 31, 2003, and, as originally issued, was effective in the first interim period after June 15, 2003 to interests in variable interest entities acquired before February 1, 2003. As of October 9, 2003, the FASB deferred compliance with FIN 46 from July 1, 2003 to the first period ending after December 15, 2003 for variable interest entities created prior to February 1, 2003. However, the Company followed the guidance on FIN 46 on the formation of the Company's trust, FCBI Capital Trust, in September, 2003. The Company reports the aggregate principal amount of the junior subordinated debentures it issues to the trust as a liability, records offsetting assets for the cash and common

securities received from the trust in its consolidated balance sheet, and reports interest payable on the junior subordinated debentures as an interest expense in its consolidated statements of operations.

The Company is required by the Federal Reserve to maintain certain levels of capital for bank regulatory purposes. Since 1996, it has been the position of the Federal Reserve that certain qualifying amounts of cumulative preferred securities having the characteristics of preferred securities could be included as Tier 1 regulatory capital for bank holding companies; however, capital received from the sale of such cumulative preferred securities, including the preferred securities, cannot constitute, as a whole, more than 25% of Tier 1 regulatory capital (the "25% capital limitation.") Amounts in excess of the 25% capital limitation would constitute Tier 2 or supplementary capital. However, the de-consolidation required by FIN 46 could result in a change to the regulatory capital treatment of trust preferred securities issued by the Company and other bank holding companies. Specifically, it is possible that since the Company's trust will not be consolidated by the Company pursuant to FIN 46, the trust preferred securities issued by such trust would not be considered a minority interest in equity accounts of a consolidated subsidiary and therefore not be accorded Tier 1 regulatory capital treatment by the Federal Reserve. Although the Federal Reserve has indicated in Supervision and Regulation Letter No. 03-13 (July 2, 2003) that trust preferred securities will by treated as Tier 1 regulatory capital until notice is given to the contrary, the supervisory letter also indicates that the Federal Reserve will review the regulatory implications of any accounting treatment changes and will provide further guidance if necessary or warranted. If Tier 1 regulatory capital treatment were disallowed, there would be a reduction in the Company's consolidated capital ratios.

As of December 31, 2003, $15 million in trust preferred securities issued by FCBI Capital Trust were outstanding and are treated as Tier 1 capital for bank regulatory purposes. If FCBI's outstanding trust preferred securities at December 31, 2003 were not treated as Tier 1 capital at that date, FCBI's Tier 1 leverage capital ratio would have declined from 8.83% to 7.91%, its Tier 1 risk-based capital ratio would have declined from 13.26% to 11.88%, and its total risk-based capital ratio would have declined from 14.55% to 13.17% as of December 31, 2003. These reduced capital ratios would continue to meet the applicable "well capitalized" Federal Reserve capital requirements.

Financial Support of Affiliated Institutions. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances when it might not do so absent such policy. In addition, any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Regulation of the Bank

General. The Bank is a nationally chartered bank organized under the banking laws of the United States and is subject to extensive regulation and examination by the OCC and the FDIC. The federal laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. There are periodic examinations by the aforementioned regulatory authorities to test the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the OCC, the FDIC or the U.S. Congress could have a material adverse impact on the Company and its operations.

FDIC Insurance Assessments. The deposits of the Bank are insured up to regulatory limits by the FDIC, and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund (the "BIF"), which is administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related

deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on (1) the bank's capitalization and (2) supervisory evaluations provided to the FDIC by the institution's primary Federal regulator. Each insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC. The annual insurance premiums on bank deposits insured by the BIF currently vary between $0.00 per $100 of deposits for banks classified in the highest capital and supervisory evaluation categories to $0.27 per $100 of deposits for banks classified in the lowest capital and supervisory evaluation categories.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Act, as amended (''FDICIA''), among other things, requires the federal banking agencies to take ''prompt corrective action'' in respect of depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: ''well capitalized,'' ''adequately capitalized,'' ''undercapitalized,'' ''significantly undercapitalized'' and ''critically undercapitalized.'' An FDIC-insured bank will be ''well capitalized'' if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a leverage ratio of 5% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. A depository institution's capital tier will depend upon where its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. As of December 31, 2003, the Bank had capital levels that qualify it as being ''well capitalized'' under such regulations.

Capital Requirements. The Bank is subject to capital requirements adopted by the OCC similar to the capital requirements for the Company. The capital ratios of the Bank are set forth in Note 13 to the Consolidated Financial Statements included herewith.

Payment of Dividends and Borrowings. The Bank is subject to certain restrictions which limit the amounts and the manner in which it may loan funds to the Company. The Bank is further subject to restrictions on the amount of dividends that can be paid to the Company in any one calendar year without prior approval by primary regulators. Payment of dividends by the Bank to the Company cannot exceed net profits, as defined, for the current year combined with net profits for the two preceding years. In addition, any distribution that might reduce the Bank's equity capital to unsafe levels or which, in the opinion of regulatory agencies, is not in the best interests of the public, could be prohibited. For additional information, see Note 13 to the Consolidated Financial Statements included herewith.

Community Reinvestment Act and the Fair Lending Laws. The Bank has a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of its community, including low and moderate income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities and the denial of applications. In addition, an institution's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in the applicable federal regulatory agencies and/or the Department of Justice taking enforcement actions against the institution. Based on its most recent examination, the Bank received an outstanding rating with respect to its performance pursuant to the Community Reinvestment Act.

Federal Home Loan Bank System. The Bank is a member of the FHLB system. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or

advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. As an FHLB member, the Bank is required to own capital stock in the FHLB of Atlanta. At December 31, 2003, the Bank had $7.2 million of FHLB Atlanta stock.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain noninterest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non personal time deposits. At December 31, 2002, the Bank was in compliance with these requirements.

Recent Banking and Other Legislation

The International Capital Accord, adopted by the Committee on Banking Supervision of the Bank for International Settlements in 1988, established the current risk-based capital standards for banking firms. The modifications to the original Basel Accord, after a thorough review, have resulted in a complete overhaul. The Committee has issued a number of Consultative Papers on this subject and intends to finalize the new Accord (Basel II) by mid 2004 for full implementation in later years.

The Committee envisions this new Accord based on three ''Pillars.'' The First Pillar is a revised risk-based capital ratio requirement that uses independent rating agency risk assessments and banks' internal risk models. The Second Pillar includes standards for official supervisory review of capital adequacy. The Third Pillar pursues market discipline and public disclosure to supplement supervisory review.

The intended result of Basel II is a process that will significantly improve the current capital standards applied to banking institutions and a more appropriate allocation of capital to support the risks inherent in the balance sheets of these financial institutions. The implementation of the new Accord will be first applied to the largest financial institutions but will ultimately be directed throughout the industry on a global basis. The impact of the Accord on the industry has resulted in a new focus on the processes, methodologies and systems used to measure and monitor portfolio credit risks. In addition, it is intended to expand the scope of the risk-based capital standard to encompass all of the risks within a banking group and their subsidiaries as well as bank holding companies. Implementation of the new capital standards throughout the industry is anticipated to take several years, which will allow for systems processes and procedures to be developed.

Sarbanes-Oxley Act of 2002. In July 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the ''SOA'') implementing legislative reforms intended to address corporate and accounting improprieties. The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters: audit committees for all reporting companies; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; a prohibition on insider trading during pension plan black out periods; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers; expedited filing requirements for Form 4's; disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; ''real time'' filing of periodic reports; the formation of a public accounting oversight board; auditor independence; and various increased criminal penalties for violations of securities laws.

Website Access to Company Reports

The Company makes available free of charge on its website at www.fcbinc.com its annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto, as soon as reasonably practicable after the Company files such reports with, or furnishes them to, the Securities and

Exchange Commission. Investors are encouraged to access these reports and the other information about the Company's business on its website.

Item 2. ***Properties***

The principal offices of the Corporation and FCBNA are located at One Community Place, Bluefield, Virginia, where the Company owns and occupies approximately 36,000 square feet of office space. The Bank operates with 47 full-service branches throughout Virginia, West Virginia and North Carolina and two trust and investment management offices. The Bank also owns UFM, based in Richmond, Virginia, which operates 8 leased offices from Virginia Beach to Harrisonburg, Virginia, as well as Stone Capital, an investment advisory firm based in West Virginia. The Corporation's banking subsidiary owns in fee 37 banking offices while others are leased or are located on leased land. There are no mortgages or liens against any property of the Bank or the Corporation. The Bank operates 45 Automated Teller Machines ("ATMs").

First Community Bank, N. A.

1001 Mercer Street
Princeton, West Virginia
24740-5939
(304) 487-9000 or (304) 327-5175
Pine Plaza Branch (304) 431-2225

211 Federal Street
Bluefield, West Virginia 24701-0950
(304) 325-7151
Mercer Mall Branch (304) 327-0431

Highway 52
Bluefield, West Virginia 24701-3068
(304) 589-3301

101 Vermillion Street
Athens, West Virginia 24712
(304) 384-9010

Corner of Bank & Cedar Streets
Pineville, West Virginia 24874-0249
(304) 732-7011
East Pineville Branch
(304) 732-7011

Mullens Shopping Plaza
Route 54
Mullens, West Virginia 25882
(304) 294-0700

Route 10, Cook Parkway
Oceana, West Virginia 24870-1680
(304) 682-8244

2 West Main Street
Buckhannon, West Virginia 26201-0280
(304) 472-1112

100 Market Street
Man, West Virginia 25635
(304) 583-6525

Corner of Main & Latrobe Streets
Grafton, West Virginia 26354-0278
(304) 265-1111

216 Lincoln Street
Grafton, West Virginia 26354-1442
(304) 265-5111

Main Street
Rowlesburg, West Virginia 26425
(304) 454-2431

16 West Main Street
Richwood, West Virginia 26261
(304) 846-2641

Railroad and White Avenue
Richwood, West Virginia 26261
(304) 846-2641

874 Broad Street
Summersville, West Virginia 26651
(304) 872-4402

Route 20 & Williams River Road
Cowen, West Virginia 26206
(304) 226-5924

Route 55, Red Oak Plaza
Craigsville, West Virginia 26205
(304) 742-5101

111 Citizens Drive
Beckley, West Virginia 25801-2970
(304) 252-9400

50 Brookshire Lane
Beckley, West Virginia 25801-6765
(304) 254-9041

298 Stokes Drive
Hinton, West Virginia 25951
(304) 466-5502

U. S. 219 North
Lindside, West Virginia 24951
(304) 753-4311

101 Sanders Lane
Bluefield, Virginia 24605
(276) 322-5487

643 E. Riverside Drive
Tazewell, Virginia 24651
(276) 988-5577

302 Washington Square
Richlands, Virginia 24641
(276) 964-7454

Chase Street & Alley 7
Clintwood, Virginia 24228
(276) 926-4671

747 Fort Chiswell Road
Max Meadows, Virginia 24360
(276) 637-3122

8044 Main Street
Pound, Virginia 24279
(276) 796-5431

910 East Main Street
Wytheville, Virginia 24382
(276) 228-1901

431 South Main Street
Emporia, Virginia 23847-2313
(434) 634-8866

4677 Main Street
Drakes Branch, Virginia 23937
(434) 568-3301

125 West Atlantic Street
Emporia, Virginia 23847
(434) 634-6555

511 Main Street
Clifton Forge, Virginia 24422
(540) 862-4251

9310 Midlothian Turnpike
Richmond, Virginia 23235
(804) 323-4100

707 East Main Street
Richmond, Virginia 23219
(804) 649-8030

900 North Parham Road
Richmond, Virginia 23229
(804) 741-4600

12410 Gayton Road
Richmond, Virginia 23233
(804) 754-8140

101 Brookfall Dairy Road
Elkin, North Carolina 28621
(336) 835-2265

5519 Mountain View Road
Hays, North Carolina 28635
(336) 696-2265

57 N. Main Street
Sparta, North Carolina 28675
(336) 372-2265

150 N. Center Street
Taylorsville, North Carolina 28681
(828) 632-2265

5610 University Parkway
Winston-Salem, North Carolina 27105
(336) 776-9262

3001 Waughtown Street
Winston-Salem, North Carolina 27107
(336) 788-2005

2000 W. First Street, Suite 102
Winston-Salem, NC 27104
Ph: 336-723-0375

Subsidiaries of First Community Bank, N. A.

United First Mortgage, Inc.

(Wholly owned subsidiary of First Community Bank, N. A.)
1503 Santa Rosa Road, Suite 109
P. O. Box K-177
Richmond, Virginia 23288
(804) 282-5631

Stone Capital Management, Inc.
(Wholly owned subsidiary of First Community Bank, N. A.)

207 Brookshire Lane
Beckley, West Virginia 25801
(304) 256-3982

Corporate Headquarters

One Community Place
P.O. Box 989
Bluefield, Virginia 24605-0989
(276) 326-9000
(276) 326-9010 Fax

Stock Registrar and Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948

Financial Contact *
Robert L. Schumacher
Chief Financial Officer
First Community Bancshares, Inc.
P. O. Box 989
Bluefield, Virginia 24605-0989
Phone: (276) 326-9000

* Copies of this annual report on Form 10K will be provided free of charge upon written request.

Internet Access

Website: www.fcbinc.com
E-mail: *ir@fcbinc.com*
FCBNA Banking Resources:
Website: *www.fcbresource.com*
E-mail: *marketing@fcbinc.com*

Item 3. *Legal Proceedings*

The Company is currently a defendant in various legal actions and asserted claims involving lending and collection activities and other matters in the normal course of business. While the Company and legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, they are of the belief that the resolution of these actions should not have a material adverse affect on the financial position of the Company.

In November, 2003 the Company was sued in U.S. District Court for the Eastern District of Virginia by two former employees of The CommonWealth Bank, alleging among other things, violation of employment law and breach of contract, stemming from the two former employees being terminated from employment. The Company and counsel believe that the lawsuit, which seeks damages of more than $180,000 and punitive damages for each of the two former employees of The CommonWealth Bank, is without merit, and intends to vigorously defend this matter.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

Part II

Item 5. *Market for Registrant's Common Equity and Related Matters*

In August 2003, the Company distributed a 10% stock dividend to shareholders. All share and per share amounts included in this Management's Discussion and in the following Consolidated Financial Statements have been adjusted to reflect the impact of the stock dividend.

The number of common stockholders of record on December 31, 2003 was 3,948 and outstanding shares totaled 11,242,443.

The Company's common stock trades on the NASDAQ National Market under the symbol FCBC. On December 31, 2003, the Company's year-end common stock price was $33.16, an 18.6% increase over the $27.96 closing price on December 31, 2002.

Book value per common share was $15.57 at December 31, 2003, compared with $14.02 at December 31, 2002, and $12.17 at the close of 2001. The year-end market price for the Company's common stock of $33.16 represents 213% of the Company's book value as of the close of the year and reflects total market capitalization of $372.8 million. Utilizing the year-end market price and 2003 diluted earnings per share, First Community common stock closed the year trading at a price/earnings multiple of 14.7 times diluted earnings per share.

Cash dividends for 2003 totaled $0.98 per share, up $0.07 or 7.7% from the $0.91 paid in 2002. The 2003 dividends resulted in a cash yield on the year-end market value of 2.96%. Total dividends paid for the current and prior year totaled $10.8 million and $9.9 million, respectively.

The following table sets forth the high and low bid prices and dividends paid per share of the Company's common stock during the periods indicated.

	Bid		Book Value Per Share	Cash Dividends Per Share
	High	Low		
2003				
First Quarter	**$30.50**	**$25.64**	**$14.28**	**$ 0.24**
Second Quarter	**33.23**	**29.24**	**15.57**	**0.24**
Third Quarter	**36.90**	**32.06**	**15.33**	**0.25**
Fourth Quarter	**37.55**	**32.70**	**15.57**	**0.25**
				$ 0.98
2002				
First Quarter	$27.95	$23.05	$12.43	$0.227
Second Quarter	30.00	25.45	13.18	0.227
Third Quarter	30.09	25.45	13.73	0.227
Fourth Quarter	30.30	26.52	14.02	0.227
				$ 0.91

Item 6. ***Summary of Selected Consolidated Financial Data***

Five-Year Selected Financial Data

	At December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands, Except Percent and Per Share Data)				
Balance Sheet Summary (at end of period):					
Loans, net of unearned income	**$1,026,191**	$ 927,621	$ 904,496	$ 811,256	$ 704,096
Loans held for sale	**18,152**	66,364	65,532	11,570	—
Allowance for loan losses	**14,624**	14,410	13,952	12,303	11,900
Securities	**482,511**	341,899	395,891	283,298	290,873
Total assets	**1,672,727**	1,524,363	1,478,235	1,218,017	1,088,162
Deposits	**1,225,617**	1,139,727	1,078,260	899,903	833,258
Other indebtedness	**162,387**	124,357	145,320	138,015	10,218
Stockholders' equity	**175,035**	152,462	133,041	120,682	103,488
Summary of Earnings:					
Total interest income	**$ 93,040**	$ 96,204	$ 92,829	$ 85,958	$ 76,492
Total interest expense	**28,374**	35,008	42,409	39,379	32,250
Provision for loan losses	**3,419**	4,208	5,134	3,986	2,893
Non-interest income	**21,707**	20,049	20,275	12,492	10,732
Non-interest expense	**47,351**	42,269	38,025	30,968	27,457
Income tax expense	**10,365**	10,049	8,402	7,054	7,722
Net income	**25,238**	24,719	19,134	17,063	16,852

	At December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands, Except Percent and Per Share Data)				
Per Share Data:					
Basic earnings per common share	**$ 2.27**	$ 2.26	$ 1.75	$ 1.62	$ 1.59
Diluted earnings per common share	**2.25**	2.25	1.75	1.62	1.59
Cash dividends	**0.98**	0.91	0.81	0.78	0.73
Book value at year-end	**15.57**	14.02	12.17	11.03	9.80
Selected Ratios:					
Return on average assets	**1.56%**	1.68%	1.49%	1.51%	1.62%
Return on average equity	**15.13**	17.16	14.80	15.70	16.23
Dividend payout	**43.17**	40.16	46.23	48.72	45.83
Average equity to average assets	**10.32**	9.79	10.05	9.64	9.96
Risk based capital to risk adjusted assets	**14.55**	13.33	12.10	12.93	13.22
Leverage ratio	**8.83**	8.10	7.93	8.37	8.25

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

This discussion should be read in conjunction with the consolidated financial statements, notes and tables included throughout this report. All statements other than statements of historical fact included in this report, including statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act.

EXECUTIVE OVERVIEW

2003 has been a year of significant opportunities and challenges. Opportunities have been substantial as the Company expanded its business presence into new markets and will enter a new state during 2004. The Company's presence will expand from its current three-state region to four as it enters Tennessee upon consummation of the PCB Bancorp acquisition announced in December 2003. The acquisition of PCB Bancorp was, as all transactions are evaluated, within the context of FCBC's commitment to its shareholders and the value that this transaction will create in terms of earnings and earnings potential for the Company's shareholders. In addition, the Company added market presence and depth with the completed acquisitions of Stone Capital Management, a registered investment advisory firm, in January 2003, as well as The CommonWealth Bank acquisition in June 2003.

Economy The interest rate environment continues to present a challenge to the Company's earnings as net interest margins and asset yields have declined in response to the historically low interest rate environment. Net interest margin is managed, to the extent possible, by securing lower funding cost and passing a portion of the reductions to depositors. The impact of the current economic cycle and interest rate environment is not anticipated to continue its current trend. Nonetheless, the timing and extent of changes is impacted by many variables and is currently unknown. However, the Federal Reserve has indicated its willingness to be patient in removing policy accommodation in setting the Federal Reserve's current monetary policy.

Mortgage Industry Although the low interest rate environment in 2003 fueled unprecedented mortgage origination volume, it also came at a time when mortgage and mortgage-backed index rates were very volatile. The first half of the year was favorable as rates remained relatively stable. However, the latter half of 2003 saw fluctuations in mortgage rates which caused many borrowers to lock, unwind and relock positions or not act at all pending hopes for further rate reductions. The impact of the rate swings was significant on the volume of rate locks outstanding at year end 2003 in comparison to 2002 and resulted in increased hedging costs at a time when the value of loans began to decline. The industry forecast and economic outlook for 2004 mortgage originations is substantially lower than 2003. As a result, the Company is evaluating the operations of the mortgage subsidiary of

the Bank and preparing for the anticipated reduction in origination volume. Other actions may include reducing the overhead of UFM, curtailing hedging activity and developing more efficient delivery channels and mechanisms.

Competitive Forces and Market Expansions The Company entered new markets in 2003 (Richmond, Virginia and Winston-Salem, North Carolina). The Richmond and Winston-Salem markets provide great opportunities for expansion but also include the presence of a great number of competitive forces. Competition throughout the banking industry has grown as companies attempt to hold onto and grow market share as the number and type of participating institutions (banks, insurance companies, brokerage houses, etc.) increase. The Richmond branch network is well developed and is known to the community in which it serves, which provides a competitive advantage for serving the customer needs of that market. The Winston-Salem market is a new market for the Company and will be a challenge to the de novo branches established there to develop lasting relationships, expand the loan portfolio and other components of profitability. The new Richmond operations are mature and are producing positive returns; however, projected profitability of the Winston-Salem market is not anticipated until late in the fourth quarter of 2004.

Application of Critical Accounting Policies

First Community's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. First Community's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in First Community's consolidated financial position and/or consolidated results of operations.

Estimates, assumptions, and judgments are necessary principally when assets and liabilities are required to be recorded at estimated fair value, when a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal and external modeling techniques and/or appraisal estimates.

First Community's accounting policies are fundamental to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. The following is a summary of First Community's more subjective and complex "critical accounting policies." In addition, the disclosures presented in the Notes to the Consolidated Financial Statements and in management's discussion and analysis, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, the valuation of loans held for sale and the valuation of derivative instruments utilized in mortgage banking and hedging activity to be the accounting areas that require the most subjective or complex judgments.

Allowance for Loan Losses: The allowance for loan losses is established and maintained at levels management deems adequate to cover probable losses inherent in the portfolio as of the balance sheet date and is based on management's evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. Estimates for loan losses are determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, the opinions of FCBI's regulators, changes in the size and composition of the loan portfolio and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. These events may include, but are not limited to, a general slowdown in the economy, fluctuations in

overall lending rates, political conditions, legislation that may directly or indirectly affect the banking industry and economic conditions affecting specific geographic areas in which First Community conducts business.

As more fully described in Note 6 to the Notes to the Consolidated Financial Statements and in the discussion included in the Allowance for Loan Losses section of this discussion, the Company determines the allowance for loan losses by making specific allocations to impaired loans, loans that exhibit inherent weaknesses and loan pools that possess common credit risk factors. Allocations to loan pools are developed giving weight to risk ratings, historical loss trends and management's judgment concerning those trends and other relevant factors. These factors may include, among others, actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, industry competition and consolidation, and the impact of government regulations. The foregoing analysis is performed by the Company's credit administration department to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas.

This risk management evaluation is applied at both the portfolio level and the individual loan level for commercial loans and credit relationships while the level of consumer and residential mortgage loan allowance is determined primarily on a total portfolio level based on a review of historical loss percentages and other qualitative factors including concentrations, industry specific factors and economic conditions. The commercial and commercial real estate portfolios require more specific analysis of individually significant loans and the borrower's underlying cash flow, business conditions, capacity for debt repayment and the valuation of secondary sources of payment (collateral). This analysis may result in specifically identified weaknesses and corresponding specific impairment allowances.

The use of various estimates and judgments in the Company's ongoing evaluation of the required level of allowance can significantly impact the Company's results of operations and financial condition and may result in either greater provisions against earnings (reducing net income and earnings per share) to increase the allowance or reduced provisions (increasing net income and earnings per share). These estimates and judgments are based upon management's current view of portfolio and economic conditions and the application of revised estimates and assumptions.

Loans Held for Sale, Derivative Instruments and Hedging Activities: UFM provides a distribution outlet for the sale of loans produced by UFM's wholesale and retail operations. It originates residential mortgage loans through its production offices located in Eastern Virginia and sells the majority of its loans through pooled commitments to national investors on a servicing released basis. In addition, UFM acquires loans from a network of wholesale brokers for subsequent resale to these national investors. UFM originates all loans with the intent to sell. Loans held for sale are stated at the lower of cost or market (''LOCOM''). The LOCOM analysis on pools of homogeneous loans is applied on a net aggregate basis. Interest income with respect to loans held for sale is accrued on the principal amount outstanding. LOCOM valuation techniques applicable to loans held for sale are based on estimated market price indications for similar loans. Pricing estimates are established by participating mortgage purchasers and prevailing economic conditions. The majority of the loans held for sale have established market pricing indications. The loans held for sale portfolio at December 31, 2003 was $18.2 million compared to $66.4 million at December 31, 2002.

Risks associated with this lending function include interest rate risk, which is mitigated through the utilization of financial instruments (commonly referred to as derivatives) to assist in offsetting the effect of changing interest rates. The Company accounts for these instruments in accordance with FASB Statement No. 133, as amended ''Accounting for Derivative Instruments and Hedging Activity.'' This Statement established accounting and reporting standards for derivative instruments and for hedging activities. UFM uses forward mortgage contracts and options (short position sales and options) to manage interest rate risk in the pipeline of uncommitted loans and interest rate lock commitments (''RLCs'') from the point of the loan commitment to the subsequent allocation (commitment) and delivery to outside investors. As a result of the timing from origination to sale, and the likelihood of changing interest rates, forward commitments and options (collectively referred to as hedging instruments or securities) are placed with counter-parties to attempt to counter the effect of changing interest rates. The options and forward commitments to sell securities are considered to be derivatives and, as

such, are recorded on the consolidated balance sheets at fair value. The changes in fair value of derivatives are reflected in the consolidated statements of income as gain or loss.

The fair value of the RLCs is based on prevailing interest rates and the assumed probability of closing (pull-through). The assumption of a given pull-through percentage also enters into the determination of the volume of derivative contracts. Pull-through assumptions are continually monitored for changes in the interest rate environment and characteristics of the pool of RLCs. Differences between pull-through assumptions and actual pull-through could result in a mismatch in the volume of security contracts corresponding to RLCs and lead to volatile or reduced profit margins on the loan products ultimately delivered. As more fully described in Note 1 to the Financial Statements (''Summary of Significant Accounting Policies''), under Recent Accounting Developments, the valuation techniques used to measure loan commitments is very likely to change in the near future as a result of a pending proposal by the SEC to create conformity within the industry or how to account for RLC's. The valuation proposed by the SEC would result in the recognition of a liability and expense associated with an option written. This would constitute a significant change from the current practice which results in the recognition of an asset and associated revenue recognition.

The valuation of RLCs is considered critical because of the impact of borrower behavior and the impact that this behavior pattern will have on the pull-through ratio during times of significant rate volatility. Customer behavior is modeled by a mathematical tool based upon historical pull-through experience; however, substantial volatility can be experienced, as has been the case over the last two quarters, as a result of the general movement in mortgage rates. As a result daily pull-through has varied significantly over this time period. Customer behavior is difficult to model. However, the mathematical tool utilized by UFM incorporates volatility derived from market data in an attempt to anticipate borrower reaction to market rate movements.

Recent Acquisitions and Branching Activity

In January 2003, the Bank completed the acquisition of Stone Capital, based in Beckley, West Virginia. This acquisition expanded the Bank's operations to include a broader range of financial services, including wealth management, asset allocation, financial planning and investment advice. At December 31, 2003, Stone Capital had a total market value of assets under management of $59 million. Stone Capital was acquired through the issuance of 8,409 shares of Company common stock, which represents 50% of the total consideration. In 2003, Stone Capital exceeded the annual revenue requirement outlined in the acquisition agreement and another 2,541 shares were paid to the original shareholders subsequent to December 31, 2003. The balance of the remaining consideration is payable over the next two years in the form of Company common stock subject to revenue minimums outlined in the acquisition agreement.

In June 2003, the Company acquired CommonWealth, a Virginia-chartered commercial bank for total consideration of approximately $23.2 million. The merger was accomplished through the exchange of .9015 shares of the Company's common stock valued at $30.50, cash, or a combination of the Company's stock and cash equivalent to $30.50 for each share of CommonWealth common stock. At acquisition, CommonWealth had total assets of $136.5 million, net loans of $120.0 million and total deposits of $105.0 million. As a result of the preliminary purchase price allocation, the $14.1 million excess of purchase price over the fair market value of the net assets acquired and identified intangibles was recorded as goodwill.

In the second, third and fourth quarters of 2003, the Company opened three de novo branches in Winston-Salem, North Carolina. It is anticipated that these branches will not be profitable until market development has proven successful and adequate loan balances and corresponding loan revenues are established to support the added facilities, infrastructure and other operating costs of these branches. However, based upon loan production indicators and given the current level of demand, it is anticipated that these branches will begin to break even in the latter half of 2004.

In February 2004, the Company also established loan production offices in Charlotte and Mount Airy, North Carolina. These offices are not involved in deposit gathering activities. However, they will assist in commercial real estate loan origination.

On December 31, 2003, the Company announced the signing of a definitive merger agreement pursuant to which the Company will acquire PCB Bancorp, Inc. This acquisition will expand First Community Bank's commercial banking operations into East Tennessee, the Company's first entry into the Tennessee market. PCB Bancorp has five full service branch offices presently in operation and in the process of construction located in Johnson City, Kingsport and surrounding areas in Washington and Sullivan Counties in East Tennessee. PCB Bancorp, which is headquartered in Johnson City, Tennessee, had total assets of $172 million, total deposits of $149 million and total stockholders' equity of $13.6 million as of December 31, 2003.

Under the terms of the merger agreement, shares of PCB Bancorp common stock will be purchased for $40.00 per share in cash. The total deal value, including the cash-out of outstanding stock options, is approximately $36.0 million. Concurrent with the PCB Bancorp merger, Peoples Community Bank, the wholly-owned subsidiary of PCB Bancorp, will be merged into the Bank. The merger is expected to close late in the first quarter of 2004, pending the receipt of all requisite regulatory approvals and the approval of PCB Bancorp's shareholders.

Results of Operations

Net income for 2003 was $25.2 million, up $0.5 million from $24.7 million in 2002 and up $6.1 million from 2001 net income of $19.1 million. Basic and diluted earnings per share for 2003 were $2.27 and $2.25, respectively, compared to basic and diluted earnings per share of $2.26 and $2.25, respectively, in 2002 and $1.75 basic and diluted in 2001. The June 6, 2003 acquisition of CommonWealth and the opening of three de novo branches combined with a $1.5 million net loss in the mortgage banking segment were the major factors impacting the Company's 2003 earnings performance. After absorbing additional costs associated with the opening of the new branches, the Community Banking segment generated an increase in net income of $2.2 million, or 9.3% in 2003 compared to the prior year. This improvement, however, was largely offset by the decline in earnings in the Mortgage Banking segment. Net income from the mortgage banking segment of the Company dropped from $489,000 for 2002 to a loss of $1.48 million for 2003. The impact of the mark to market valuation for 2003 reduced the mortgage banking segment net income by $957,000 as outstanding unfunded interest rate lock commitments, adjusted for fallout ("RLC's") declined by $51.5 million from $82.3 million at December 31, 2002 to $30.8 million at December 31, 2003. The mortgage banking segment is discussed more fully later in this management's discussion.

The Company's key profitability ratios of Return on Average Assets (ROA) and Return on Average Equity (ROE) compare favorably with the average of the Company's national peer ratios of 1.20% and 14.00%, respectively, based on the September 2003 Bank Holding Company Performance Report. ROA, which measures the Company's stewardship of assets, was at 1.56%, compared to 1.68% in 2002 and 1.49% in 2001. ROE for the Company was 15.13% in 2003, compared to 17.16% in 2002 and 14.8% in 2001.

Net Interest Income

Current Year Comparison (2003 vs. 2002)

The primary source of the Company's earnings is net interest income, the difference between income on earning assets and the cost of funds supporting those assets. Significant categories of earning assets are loans and securities while deposits and short-term borrowings represent the major portion of interest-bearing liabilities.

Net interest income, the largest contributor to earnings, was $64.7 million for the year ended December 31, 2003 compared to $61.2 million for the corresponding period in 2002. For purposes of the following discussion, comparison of net interest income is done on a tax equivalent basis, which provides a common basis for comparing yields on earning assets exempt from federal income taxes to those which are fully taxable. As indicated in Table I, tax equivalent net interest income totaled $68.3 million for 2003, an increase of $3.2 million from the $65.1 million reported in 2002. This $3.2 million increase includes a $4.8 million increase in earning assets, which were added to the portfolio at declining replacement rates. This increase was partially offset by a $1.6 million reduction in rate changes on the underlying assets as asset yields fell in the declining rate environment. Management was able to help offset the effect of the declining asset yield through aggressive management of deposit rates. Average earning assets increased $126 million while interest-bearing liabilities

increased $101 million. As indicated in Table I, the yield on average earning assets decreased 84 basis points from 7.32% for the year ended December 31, 2002 to 6.48% for the year ended December 31, 2003. However, this decrease was largely offset by a 77 basis point decline in the cost of funds during the same periods leaving the net interest rate spread (the difference between interest income on earning assets and expense on interest bearing liabilities) at December 31, 2003 slightly lower at 4.22% compared to 4.29% for the same period last year. The Company's tax equivalent net interest margin of 4.58% for the year ended December 31, 2003 decreased 18 basis points from 4.76% in 2002.

The largest contributor to the decrease in the yield on average earning assets in 2003, on a volume-weighted basis, was the decrease in the overall tax equivalent yield on loans held for investment of 68 basis points from the prior year to 7.23%, as loans repriced downward in response to the declining rate environment while the average balance increased $58.7 million. The decline in asset yield is attributable to the recent interest rate environment which created refinancing or repricing incentives for fixed rate borrowers to lower their current borrowing costs. In addition, due to the volume of loans directly tied to prime and other indices that are either adjustable incrementally or are variable rate advances, asset yields have declined in response to rate cuts and drops in the prime loan rate which began in 2001, continued in 2003 and continues to remain at lows not seen in over 45 years.

The balance of average loans held for sale decreased by $13.1 million while the yield decreased 89 basis points to 5.38%. The yield on loans held for sale is much more sensitive to interest rate change since these loans are only held for 30 to 60 days and are replenished with new loan volume at the then prevailing rates. The change in rate on this pool of loans is reflective of the volatility experienced in mortgage rates and the underlying mortgage-backed securities into which they are delivered. The average secondary market loan delivered to investors through the Company's mortgage subsidiary varied in rate during the current year from a high in January 2003 of 6.625% to a low of 4.75% in June 2003.

During 2003, the taxable equivalent yield on securities available for sale decreased 105 basis points to 4.87% while the average balance increased by $67.9 million. Consistent with the current rate environment, the Company and the securities industry as a whole have experienced rapid turnover in securities as higher yielding securities are either called or prepaid as the refinancing opportunity presented itself. The increasing average security balance is the result of continued reinvestment of available funds largely created by higher average deposit levels. Both the average balance and tax equivalent yield on investment securities held to maturity remained relatively stable with a slight increase in yield of 7 basis points to 8.23% and a $1.4 million decrease in average balance from 2002. Securities held to maturity are largely comprised of tax-free municipal securities.

Compared to 2002, average interest-bearing balances with banks increased $14 million while the yield increased 3 basis points. This average balance increase was largely the result of funds received from new deposit growth in existing markets and deposits obtained in the acquisition of Greenville in the fourth quarter of 2002 and CommonWealth in June 2003 as well as the continued cash flow roll-off experienced in the loan and investment portfolio.

The Company actively manages its product pricing by staying abreast of the current economic climate and competitive forces in order to enhance repricing opportunities available with respect to the liability side of its balance sheet. In doing so, the cost of interest-bearing liabilities decreased by 77 basis points from 3.03% in 2002 to 2.26% for the same period of 2003 while the average volume increased $101 million. Active deposit liability review and pricing management is performed weekly. Average short-term borrowings, increased $16.2 million in 2003 when compared to 2002, because of additional borrowings assumed in the acquisition of CommonWealth and a general increase in the level of retail repurchase agreements. The average rate paid on these borrowings decreased 87 basis points to 3.45% in 2003 versus 4.32% in 2002. Average long-term borrowings increased $1.8 million because of the September 2003 issuance of $15 million in trust preferred securities and the payment of an $8 million advance from the FHLB. The average rate paid on these borrowings decreased 46 basis points in 2003 compared to 2002.

In addition, the average balances of interest-bearing demand and savings deposits increased $34.4 and $15.1 million, respectively, during 2003 while the corresponding average rate paid on these deposit categories declined 38 and 50 basis points, respectively. Average time deposits increased $33.4 million while the average rate paid

decreased 89 basis points from 3.74% in 2002 to 2.85% in 2003. Likewise, average Fed Funds and repurchase agreements increased $13.2 million while the average rate decreased 59 basis points. The level of average non-interest-bearing demand deposits increased $21.7 million to $179.1 million in 2003 compared to 2002. Approximately $58.4 million of the $82.9 million increase in average interest-bearing deposit growth is attributable to the acquisitions of Greenville ($22.5 million) in the fourth quarter of 2002 and CommonWealth ($35.9 million) in June 2003, respectively. CommonWealth also contributed significant non-interest bearing deposit balances with its high balance deposit product for title companies and real estate settlement firms.

Prior Year Comparison (2002 vs. 2001)

On a tax equivalent basis, net interest income increased $11.1 million, or 20.5% in 2002 compared to an increase of $4.1 million, or 8.3% in 2001, in each case, over the prior year. The increase in 2002 was the net result of an $8.7 million increase due to the higher volume of interest-earning assets and interest-bearing liabilities and a $2.3 million increase due to changes in rates on these assets and liabilities. The increase in net interest income in 2002 was primarily due to a $180.3 million or 15.2% increase in average earning assets over 2001. The increase in 2002 average earning assets was the result of an $89.0 million increase in average total loans, an $89.8 million increase in average investment securities and a $3.2 million increase in other interest yielding deposits. The cost of all interest bearing liabilities decreased to 3.03% in 2002, compared to 4.21% in 2001 reflecting the steadily declining interest rate environment throughout the year.

The combined increase in average earning assets in 2002 of $180.3 million was attributable in large part to the fourth quarter 2001 acquisition of four branches in Virginia. The balance of earning asset growth came in the form of internal or ''organic'' growth in existing branches, along with increased wholesale borrowings ($17.5 million) and growth in average equity ($14.8 million).

Average interest-bearing liabilities increased $148.7 million in 2002, which included a $131.3 million increase in interest-bearing deposits. Additionally, there was a $22.6 million increase in average non-interest bearing demand deposits compared to the prior year. The acquisition of Bank of Greenville in the fourth quarter of 2002 accounted for only $2.0 million of the average interest-bearing deposit balance increase in 2002 while the branch acquisitions in the fourth quarter of 2001 accounted for approximately $94.0 million. Organic growth in 2002 was enhanced by significant merger activity in competing banks which assisted in customer acquisition and market share growth primarily in Southern West Virginia.

Distribution of Assets, Liabilities and Stockholders' Equity,
Interest Rates and Interest Differential
Average Balance Sheets-Net Interest Income Analysis
(Amounts in Thousands, Except %)

	2003			2002			2001		
	Average Balance	Interest (1)	Yield/ Rate (1)	Average Balance	Interest (1)	Yield/ Rate (1)	Average Balance	Interest (1)	Yield/ Rate (1)
Earning Assets:									
Loans:									
Held for Sale	$ 43,996	$ 2,367	5.38%	$ 57,116	$ 3,584	6.27%	$ 41,511	$ 2,956	7.12%
Held for Investment (2)									
Taxable	970,820	70,185	7.23%	910,790	72,065	7.91%	836,807	72,120	8.62%
Tax-Exempt	5,252	380	7.24%	6,559	538	8.20%	7,118	711	9.99%
	976,072	70,565	7.23%	917,349	72,603	7.91%	843,925	72,831	8.63%
Allowance for Loan Losses	(14,980)	—	—	(14,436)	—	—	(12,753)	—	—
Net Total	961,092	70,565	7.34%	902,913	72,603	8.04%	831,172	72,831	8.76%
Securities Available for Sale:									
Taxable	313,126	13,104	4.18%	245,001	12,906	5.27%	167,672	10,094	6.02%
Tax-Exempt	94,910	6,750	7.11%	95,164	7,239	7.61%	81,507	6,269	7.69%
Total	408,036	19,854	4.87%	340,165	20,145	5.92%	249,179	16,363	6.57%
Held to Maturity Securities:									
Taxable	598	33	5.52%	1,459	95	6.51%	2,511	165	6.57%
Tax-Exempt	39,083	3,231	8.27%	39,587	3,253	8.22%	39,755	3,253	8.18%
Total	39,681	3,264	8.23%	41,046	3,348	8.16%	42,266	3,418	8.09%
Interest Bearing Deposits with Banks	39,062	606	1.55%	25,061	380	1.52%	22,197	842	3.79%
Fed Funds Sold	711	9	1.27%	288	4	1.39%	—	—	—
Total Earning Assets	1,492,578	$96,665	6.48%	1,366,589	$100,064	7.32%	1,186,325	$96,410	8.13%
Other Assets	124,574			105,655			99,989		
Total	$1,617,152			$1,472,244			$1,286,314		
Interest-Bearing Liabilities:									
Demand Deposits	$ 223,615	1,412	0.63%	$ 189,200	1,916	1.01%	$ 145,107	2,150	1.48%
Savings Deposits	185,429	1,146	0.62%	170,297	1,903	1.12%	131,699	1,698	1.29%
Time Deposits	610,201	17,392	2.85%	576,833	21,547	3.74%	528,267	28,036	5.31%
Short-term Borrowings	225,431	7,767	3.45%	209,154	9,035	4.32%	191,660	9,913	5.17%
Long-term Borrowings	11,895	657	5.52%	10,081	607	6.02%	10,171	612	6.02%
Total Interest-bearing Liabilities	1,256,571	28,374	2.26%	1,155,565	35,008	3.03%	1,006,904	42,409	4.21%
Demand Deposits	179,050			157,339			134,726		
Other Liabilities	14,719			15,249			15,401		
Stockholders' Equity	166,812			144,091			129,283		
Total	$1,617,152			$1,472,244			$1,286,314		
Net Interest Income		$68,291			$ 65,056			$54,001	
Net Interest Rate Spread (3)			4.22%			4.29%			3.91%
Net Interest Margin (4)			4.58%			4.76%			4.55%

(1) Fully Taxable Equivalent at the rate of 35%.

(2) Non-accrual loans are included in average balances outstanding but with no related interest income during the period of non-accrual.

(3) Represents the difference between the yield on earning assets and cost of funds.

(4) Represents tax equivalent net interest income divided by average interest earning assets.

Rate and Volume Analysis of Interest

The following table summarizes the changes in interest earned and paid resulting from changes in volume of earning assets and paying liabilities and changes in their interest rates. In this analysis, the change in interest due to both rate and volume has been allocated to the volume and rate columns in proportion to absolute dollar amounts. This table will assist you in understanding the changes in the Company's principal source of revenues, net interest income ("NII"). The principal themes or trends which are evident in this table include:

- The significant increase in NII in 2002 resulting largely from branch growth
- Downward repricing of liabilities in 2002 which exceeded declining loan and investment yields
- The resulting higher margin and net revenues in 2002
- The beneficial effects of falling rates in 2002
- Lower growth in 2003 (roughly half the 2002 rate of growth)
- The limiting effect of low rates in 2003 as deposit rates hit floor levels and loan and investment rates continued to reprice downward
- The resulting shrinkage in margin which was overcome only by growth in average earning assets

	2003 Compared to 2002 $ Increase/(Decrease) due to			2002 Compared to 2001 $ Increase/(Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Amounts in Thousands)					
Interest Earned On (1):						
Loans Held for Sale	$ (751)	$ (466)	$(1,217)	$1,011	$ (383)	$ 628
Loans	4,473	(6,511)	(2,038)	6,052	(6,280)	(228)
Securities available for sale	3,145	(3,436)	(291)	5,237	(1,455)	3,782
Securities held to maturity	(91)	7	(84)	(82)	12	(70)
Interest-bearing deposits with other banks	217	9	226	97	(559)	(462)
Federal funds sold	5	—	5	4	—	4
Total interest-earning assets	6,998	(10,397)	(3,399)	12,319	(8,665)	3,654
Interest Paid On:						
Demand deposits	306	(810)	(504)	552	(786)	(234)
Savings deposits	157	(914)	(757)	452	(247)	205
Time deposits	1,188	(5,342)	(4,154)	2,397	(8,887)	(6,490)
Short-term borrowings	436	(1,709)	(1,273)	210	(1,088)	(878)
Long-term debt	103	(49)	54	(5)	1	(4)
Total interest-bearing liabilities	2,190	(8,824)	(6,634)	3,606	(11,007)	(7,401)
Change in net interest income	$4,808	$ (1,573)	$ 3,235	$8,713	$ 2,342	$11,055

(1) Fully taxable Equivalent using a rate of 35%.

Non-interest Income

Current Year Comparison (2003 vs. 2002)

Non-interest income consists of all revenues which are not included in interest and fee income related to earning assets. Total non-interest income increased approximately $1.7 million, or 8.27%, from $20.0 million for the year ended December 31, 2002 to $21.7 million for 2003. Gains on the sale of securities of $1.2 million were

the largest contributor to this increase, almost entirely due to the sale of certain short-term equity investments in the third quarter of 2003.

In addition, along with the increase in deposits created by new market areas served by the Company, service charges on deposit accounts increased $1.0 million, or 14.4% primarily as the result of the Company's overdraft program that allows well-managed customer deposit accounts flexibility in managing overdrafts to their accounts. Other service charges, commissions and fees also increased $1.0 million in 2003 compared to 2002. These fees are dependent upon customer behaviors and usage of the various products and services of the Company and are transaction oriented. Revenues in this category include, among others, commissions on sales of credit life insurance and other fee sources of revenue including the revenues of Stone Capital and ATM service charge revenues created in the newer market areas.

Fiduciary earnings representing asset management fees on trust and agency accounts of $1.8 million were consistent with the prior year. All other operating income increased $305,000.

Non-interest income in the mortgage banking subsidiary United First Mortgage, Inc. (''UFM'') declined from $9.4 million in 2002 to $7.2 million in 2003. The end of unprecedented refinance activity in the latter half of the year, coupled with rate volatility and changes in price expectations by national investors who buy these loans and brokers who provide wholesale production, caused a decline of $1.6 million in the fair value mark-to-market of the mortgage pipeline and related securities.

The following table details the components of UFM's mortgage banking income included in non-interest income for the years ended December 31, for the periods indicated.

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Mortgage Banking Income			
Loan Sales and Settlement Component:			
Other Service Charges, Commissions & Fees	**$ 1,254**	$ 1,649	$ 1,914
Gain on Sale of Loans	**6,625**	12,947	7,302
Fee Income	**2,395**	1,708	1,535
Gain (Loss) on Closed Derivatives	**(1,210)**	(8,066)	(1,649)
Option Expense	**(306)**	—	—
	8,758	8,238	9,102
Mark-to-Market Component:			
Mark to Market (Losses) Gains on Commitments	**(2,083)**	1,885	497
Mark to Market Securities	**490**	(688)	(17)
	(1,593)	1,197	480
Total Mortgage Banking Income	**$ 7,165**	$ 9,435	$ 9,582

	At December 31,	
	2003	2002
Interest Rate Lock Commitments		
Notional Value	**$36,706**	$90,747
Fair Value	**299**	2,382
Securities		
Notional Value	**39,500**	75,000
Fair Value	**(216)**	(706)

At December 31, 2003, UFM held an investment in forward mortgage contracts with a notional value of $34.5 million and mortgage-backed security put options totaling $5.0 million. These contracts are used in an attempt to hedge interest rate risk associated with RLCs and closed loans not allocated to a forward commitment of $30.8 million. At December 31, 2003, the fair value of the securities was a liability of $216,000, which represents a $490,000 increase from the fair value at December 31, 2002. In addition, the fair value of the RLCs at December 31, 2003 was $252,000, which represents a $1.98 million decline from the fair value at December 31, 2002. The market valuation of RLCs at December 31, 2003 assumes a 65.82% RLC pull-through.

If actual pull-through in succeeding months proves to be more or less than 65.82%, the full market value of RLCs may or may not be realized and/or the valuation of RLCs may change.

For the year-ended December 31, 2003, the Company incurred $1.5 million in the cost of forward mortgage derivative contracts and options to originate and sell $874.0 million in loans compared to the prior year in which $740.5 million in loans were originated for sale with underlying forward mortgage contracts that cost $8.1 million. The lower cost of forward mortgage contracts between the two years is reflective of the volatility of the pricing of these types of contracts during times of significant interest rate volatility. Although the pricing of the contracts was favorable to the Company in the current year, UFM's pricing and margin on loans sold was substantially less favorable as a result of the market pricing dynamics and significant competitive forces. The significant decrease in hedging cost, as well as the market price of loans sold, demonstrates the potential volatility to earnings and the sensitivity to pull-through assumptions. The cost of these derivative contracts is included as a component of mortgage banking income in the consolidated statements of income, which represents the net revenues associated with the origination, holding and sale of mortgage loans.

The shift to a loss in mortgage banking operations in 2003 stems from the aforementioned interest rate volatility and other factors that began late in the third quarter of 2003, and in turn led to lower margins. These losses, coupled with the expectation for lower volumes in 2004, also led to an impairment charge of $397,000 relating to goodwill with respect to the mortgage banking segment during the fourth quarter of 2003.

Prior Year Comparison (2002 vs. 2001)

Non-interest income totaled $20.0 million in 2002, which is substantially unchanged from the $20.3 million recognized in 2001. 2002 reflected changes in various categories of non-interest income items in comparison to 2001. While service charges on deposit accounts increased $1.1 million or 18.3%, this was largely offset by declines in securities gains and losses ($572,000) and a reduction in other operating income ($500,000).

The Company's mortgage banking segment recognized $9.4 million in mortgage banking income in 2002. The level of mortgage banking income declined slightly from the prior year level of $9.6 million. The decrease, despite increased loan applications, was attributable to lower margins recognized on loan sales in the third and fourth quarters of 2002. The reduction in margin was attributable to lower than anticipated pull through rates (closings versus commitments) as mortgage rates fell to record lows and the earnings on a portion of the loan commitments outstanding were not realized. Higher than anticipated hedging cost reduced the margin on loan sales by approximately $900,000 in 2002 due to the increased cost of mortgage derivative commitments used to hedge the price volatility of loan commitments. The inability of the mortgage company's hedge model to accurately predict loan fallout percentages experienced in the third and early in the fourth quarter 2002 resulted in higher than predicted fallout. This fallout was due to loan applicants who "opted out" of the mortgage company's process prior to closing and, instead, reapplied elsewhere or simply waited on the sidelines for more declines in mortgage rates, as they continued to decline to historically unprecedented lows. The hedge model, which predicted the need to invest at a specified level based upon historic information, failed to predict the sudden increase in fallout, and in turn, hedge volume was elevated when measured against the loan commitments which ultimately closed.

UFM originated $791.8 million in loans during 2002 compared to the 2001 volume of $621.6 million. The corresponding sale of loans resulted in gains on the sale of loans during 2002 and 2001 of $12.9 million and $7.3 million, respectively. Elevated hedge costs in 2002 and increased expense associated with the higher volume of origination resulted in a drop in mortgage banking pre-tax earnings from $2.0 million in 2001 to $798,000 in 2002. Pretax earnings for 2002 were further reduced by a $400,000 payment to a former mortgage company executive to settle employment obligations and to acquire a non-compete agreement on his termination of employment.

Fiduciary income continued at the $1.8 million level in 2002 as it did in 2001. The level of trust and estate revenues remained relatively consistent in 2002 even though the total market value of the assets managed declined during 2002.

Other service charges, commissions and fees of approximately $1.4 million also remained relatively consistent in 2002 and 2001. Other service charges, commissions and fees declined by $55,000 in 2002 compared to 2001.

During 2002, the Company experienced a net loss from available for sale securities of $391,000. The loss included an other-than-temporary $576,000 write-down of a municipal issue, losses from the sale of securities of $313,000 and gains resulting from securities sold and called of $496,000. During 2001, a net gain of $181,000 was realized as a result of the sale of available for sale securities with gains of $209,000 and losses of $28,000.

Non-interest Expense

Current Year Comparison (2003 vs. 2002)

Non-interest expense totaled $47.4 million for 2003 increasing $5.1 million, or 12.02% over year-end 2002. This increase is primarily attributable to a $3.5 million increase in salaries and benefits as a result of the addition of Greenville in late 2002 ($349,000), the addition of CommonWealth in June 2003 ($854,000) as well as a general increase in salaries and benefits as staffing needs at several locations were satisfied in order to support added corporate services and continued branch growth, including three newly established branches in Winston-Salem, North Carolina ($342,000).

In 2003, occupancy and furniture and equipment expense increased by $640,000 compared to 2002. The general level of occupancy cost grew largely as a result of the Greenville ($145,000) and CommonWealth acquisitions ($251,000) as well as increases in depreciation and insurance costs associated with new de novo branches ($63,000) and depreciation associated with a significant investment in operating equipment and technology infrastructure.

During the fourth quarter of 2003, the Company performed its annual impairment test on goodwill. The results of the impairment tests indicated a charge of approximately $400,000 was appropriate for the mortgage banking segment. This charge was included in the non-interest expense category and as a reduction to goodwill on the balance sheet.

All other operating expense accounts increased $555,000, or 4.02% in 2003 compared to 2002. Again, this increase was largely attributable to the Monroe Financial, Inc. (''Monroe'' or ''Greenville'') acquisition in late 2002 and the CommonWealth acquisition along with the three de novo branches opened in the second, third and fourth quarters of 2003.

The Company's net overhead ratio (non-interest expense less non-interest income excluding security gains and non-recurring gains divided by average earning assets) is a measure of its ability to manage and control costs. As this ratio decreases, more of the net interest income earned is realized as net income. The net overhead ratios for 2003, 2002, and 2001 were 1.66%, 1.48%, and 1.39%, respectively. The increase in the overhead ratio for 2003 and 2002 reflects the additional costs associated with the aforementioned expansion efforts as part of the Company's strategic plan for the development of its banking network in metro markets and the added infrastructure cost necessary to support the growth of the Company.

The Company's efficiency ratio also measures management's ability to control costs and maximize net revenues. The efficiency ratio is computed by dividing non-interest expense by the sum of net interest income plus non-interest income (excluding security gains and losses, amortization of intangibles and impairment charges). The efficiency ratios for 2003, 2002, and 2001 were 51.9%, 48.6%, and 47.8%, respectively. Increases in the current and prior year are reflective of the higher direct costs associated with the acquisitions and new branches in late 2002 and in 2003 and added Corporate overhead required to support Company expansion.

Prior Year Comparison (2002 vs. 2001)

Non-interest expense totaled $42.3 million in 2002, compared with $38.0 million in 2001. The increase in non-interest expense in 2002 of $4.3 million is primarily attributable to a $3.4 million increase in salaries and benefits, $1.0 million of which was due to the acquisition of the four branches in the fourth quarter of 2001, along with a $700,000 increase in salaries and commissions in the mortgage operations of UFM (primarily attributable

to increased loan production) and a general increase in salaries as staffing needs at several locations were satisfied in order to support added corporate services and continued branch growth. In addition, the combined impact of increases in other non-interest expense categories of $2.8 million is attributable to increased operating expenses from the branch acquisitions ($380,000), increased operations of UFM ($820,000) and additional increases of $1.6 million in other non-interest expense categories including costs associated with occupancy and facilities maintenance, data communications and marketing campaigns. These expenses were offset by the decline in goodwill amortization of $2.0 million.

Occupancy expense increased $259,000 or 9.9% between 2001 and 2002. The 2002 increase primarily consists of $160,000 related to the full year's occupancy costs of the branch facilities purchased in fourth quarter 2001, and additional costs of $70,000 associated with UFM.

With the adoption of FASB Statement No. 142, the Company ceased amortization of certain goodwill beginning January 1, 2002 as required by the Statement and with the adoption of Statement 147 in October 2002, amortization of remaining goodwill associated with branch acquisitions was discontinued. Cessation of such amortization decreased goodwill expense in 2002 by $2.04 million compared to 2001. This resulted in an additional $1.9 million in after tax net income in comparison to the prior year.

Other operating expense increased by $2.3 million in 2002 compared to 2001. These accounts include increases in other operating costs associated with UFM of $700,000 (tied to increased loan production and the payment of a $400,000 contract settlement with the retiring president of UFM in connection with his departure). Other increased expenses, largely due to the acquisition of the new branches, included an increase in telephone and data communications expense of $237,000, an increase in ATM service fees of $162,000 and an increase in courier and travel expense of $214,000. Advertising expense was also up $114,000 in comparison to 2001 due to ad campaigns for new products and branch promotions. In 2001, a litigation settlement led to reimbursement of legal costs which reduced legal fees by $150,000 in 2001.

Income Tax Expense

Income tax expense totaled $10.4 million in 2003, compared with $10 million in 2002 and $8.4 million in 2001. The $0.4 million increase in 2003 is reflective of the higher level of pre-tax earnings in 2003 as is the $1.6 million increase between 2001 and 2002. Pre-tax earnings increased $0.8 million between 2002 and 2003 and $7.2 million between 2001 and 2002.

The major difference between the statutory tax rate and the effective tax rate (income tax expense divided by pre-tax income) results from income not taxable for federal income tax purposes. The primary category of non-taxable income is that of state and municipal securities and industrial revenue bonds and tax-free loans. The effective tax rate for 2003 was 29.1% compared with 28.9% for 2002 and 30.5% in 2001. The reduction in the Company's effective tax rate in 2002 was partially attributable to the cessation of amortization of non-deductible goodwill while the slight increase in 2003 is the result of a decline in tax-free revenue sources as a percentage of total net revenues.

Financial Position

Securities Held to Maturity

Investment securities held to maturity are comprised largely of U.S. Agency obligations and state and municipal bonds. Obligations of States and Political Subdivisions represent the largest portion of the held to maturity portfolio and totaled $37.5 million at December 31, 2003. These are comprised of high-grade municipal securities generally carrying AAA bond ratings, most of which also carry credit enhancement insurance by major insurers of investment obligations.

The average final maturity of the investment portfolio decreased from 9.06 years in 2002 to 8.11 years in 2003 with the tax equivalent yield increasing from 8.62% at year-end 2002 to 8.66 % at the close of 2003. The average maturity of the investment portfolio, based on market assumptions for prepayment, is 2.8 years and

3.3 years at December 2003 and 2002, respectively. The average maturity data differs from final maturity data because of the use of assumptions as to anticipated prepayments.

Securities Available for Sale

At December 31, 2003, the Company had $444.5 million in securities available for sale, compared with $300.9 million at year-end 2002, an increase of $143.6 million or 47.7%. During the year $307.9 million in securities were purchased. However, these increases were offset by maturities, calls, and mortgage-backed security principal payments and prepayments of $150.8 million, and sales of $10.2 million.

The fair value of securities available for sale exceeded book value at year-end 2003 by $8.3 million, compared with $11.3 million at year-end 2002. The market value appreciation reflects changes (declines) in interest rates on comparable securities since acquisition. The market value appreciation declined by $3.0 million between 2002 and 2003 as a result of changes in rates during 2003 and changes in the composition of the portfolio. Fueled by calls and mortgage-backed security principal payments and prepayments of higher yielding securities throughout the year, a reduction in the appreciated value of the portfolio occurred as the balances of higher yielding securities declined. Reinvestment in comparable securities resulted in lower yields with prices closer to current market rates. The tax equivalent purchase yield on securities available for sale was 5.23% in 2003 and 6.32% in 2002.

The average final maturity of the available for sale portfolio was 15.2 years and 13.5 years at December 31, 2003 and 2002, respectively. The change in average final maturity was the result of the $150.8 million in calls, principal payments and prepayments that occurred as a result of the declining interest rate environment while reinvestment in comparable securities resulted in extending the average contractual maturity of the portfolio by 1.7 years. The average maturity of the portfolio, based on market assumptions for prepayment, was 4.2 years and 2.9 years, respectively, at December 31, 2003 and 2002, substantially shorter than the average final maturity.

Securities available for sale are used as part of management's asset/liability strategy. These securities may be sold in response to changes in interest rates, changes in prepayment risk, for liquidity needs and other factors. These securities are carried at market value.

Loan Portfolio

Loans Held for Sale:

The relative size of the portfolio of loans originated by the Company's mortgage banking division, UFM, and held for sale, was impacted significantly by the refinancing activity that occurred during 2002 and 2003 as a result of the low interest rate environment. Loans held for sale fluctuate on a daily basis reflecting retail originations, wholesale purchases and sales to investors. At December 31, 2003, loans held for sale were $18.2 million compared to $66.4 million at December 31, 2002. Average loans held for sale (which is a better indicator of volume maintained) decreased $13.1 million in 2003.

Loans Held for Investment:

Total loans held for investment increased $98.6 million from $927.6 million at December 31, 2002 to $1.03 billion at December 31, 2003. The increase is attributable to the CommonWealth acquisition (approximately $131.2 million at June 30, 2003) net of several large payoffs during 2003. Considering an $85.9 million increase in deposits and the increase in loans during 2003, the loan to deposit ratio increased slightly at December 31, 2003 compared to the December 31, 2002 level. The loan to deposit ratio, using only loans held for investment (excluding loans held for sale), was 83.7% on December 31, 2003 and 81.4% on December 31, 2002. Intense competition for loans in the face of low interest rates and what appears to be slower loan demand continue to impact this measure of loan production. Resulting liquidity during the period has been reinvested in the available for sale securities portfolio.

The average balance of loans held for investment increased $58.7 million when comparing 2003 to 2002. This increase includes approximately $14 million in average loans acquired in the Monroe acquisition in the

fourth quarter of 2002 and $71.5 million in average loans from the CommonWealth acquisition on June 6, 2003 net of the large commercial loan payoffs mentioned earlier and regular amortization in 2003.

The held for investment loan portfolio continues to be diversified among loan types and industry segments. The following table presents the various loan categories and changes in composition at year-end 1999 through 2003.

Loan Portfolio Summary:

	December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands)				
Commercial, Financial and Agricultural	**$ 69,395**	$ 74,186	$ 96,641	$ 86,887	$ 92,739
Real Estate-Commercial	**317,421**	285,847	259,717	222,571	208,228
Real Estate-Construction	**98,510**	72,275	77,402	73,087	24,684
Real Estate-Residential	**421,299**	364,087	332,671	293,732	251,332
Consumer	**119,195**	131,385	138,426	135,692	128,541
Other	**992**	726	961	649	62
Total	**1,026,812**	928,506	905,818	812,618	705,586
Less Unearned Income	**621**	885	1,322	1,362	1,490
	1,026,191	927,621	904,496	811,256	704,096
Less Allowance for Loan Losses	**14,624**	14,410	13,952	12,303	11,900
Net Loans	**$1,011,567**	$913,211	$890,544	$798,953	$692,196

The Company maintained no foreign loans in the periods presented.

Maturities and Rate Sensitivity of Loan Portfolio at December 31, 2003:

	Remaining Maturities				
	One Year and Less	Over One to Five Years	Over Five Years	Total	Percent
	(Amounts in Thousands)				
Commercial, Financial and Agricultural	$ 41,139	$ 25,662	$ 2,594	$ 69,395	6.76%
Real Estate-Commercial	93,799	143,262	80,360	317,421	30.93%
Real Estate-Construction	64,639	18,729	15,142	98,510	9.60%
Real Estate-Mortgage*	51,141	160,850	209,297	421,288	41.05%
Consumer*	19,978	89,014	9,593	118,585	11.56%
Other	113	715	164	992	0.10%
	$270,809	$438,232	$317,150	$1,026,191	100.00%
Rate Sensitivity:					
Pre-determined Rate	$ 92,370	$370,378	$314,348	$ 777,096	75.73%
Floating or Adjustable Rate	178,438	67,854	2,803	249,095	24.27%
	$270,808	$438,232	$317,151	$1,026,191	100.00%
	26.39%	42.70%	30.91%	100.00%	

* Amounts are net of $621 unearned income; $11 in the Real Estate-Mortgage category and $610 in Consumer.

Allowance and Provision for Loan Losses

The allowance for loan losses is maintained at a level sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision for loan losses is calculated to bring the reserve to a level, which, according to a systematic process of measurement, is reflective of the required amount needed to absorb probable losses.

Management performs monthly assessments to determine the appropriate level of allowance. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the loss provision based upon current measurement criteria. Commercial, consumer and mortgage loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual commercial credits and allocations to the remaining non-homogeneous and homogeneous pools of loans. Management's allocations are based on judgment of qualitative and quantitative factors about both the macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturity, composition, delinquencies, and non-accruals. While management has attributed the allowance for loan losses to various portfolio segments, the allowance is available for the entire portfolio.

The allowance for loan losses was $14.6 million on December 31, 2003, compared to $14.4 million at December 31, 2002 and $14 million on December 31, 2001. The allowance for loan losses represents 488.6% of non-performing loans at December 31, 2003, versus 455% and 280% at December 31, 2002 and 2001, respectively. When other real estate is combined with non-performing loans, the allowance equals 288% of non-performing assets at December 31, 2003 versus 239% and 174% at December 31, 2002 and December 31, 2001, respectively. The increase in the allowance since year-end 2002 is primarily attributable to the acquisition of CommonWealth and the application of risk factors specific to this portfolio. The allowance attributable to the CommonWealth portfolio at the date of acquisition was $1.6 million.

The provision for loan losses for the year ended December 31, 2003 decreased $789,000 when compared to the year ended December 31, 2002. The decrease is largely attributable to improving asset quality and loan loss history, changes in risk factors assigned and a decline in volume within certain portfolio segments. Net charge-offs for 2003 and 2002 were $4.8 million and $4.1 million, respectively. Although net charge-offs increased in 2003 compared to 2002, expressed as a percentage of average loans held for investment, net charge-offs decreased from 0.49% for 2002, to 0.45% for 2003 due to the increase in average loans of $58.7 million.

The provision for loan losses was $4.2 million in 2002, $5.1 million in 2001 and $4.0 million in 2000. The 2002 provision of $4.2 million decreased by more than $900,000 from 2001 in response to continuing improvements in asset quality and only modest growth in the loan portfolio year over year. The decline in the provision was consistent with the noted improvements in all categories of non-performing loans and other real estate owned. The 2001 provision of $5.1 million was elevated in response to charge-offs in 2001 coupled with larger charge-offs of commercial credits in 2001 as the Company pursued workout and resolution of two commercial loans in non-accrual status.

Based on the allowance for loan losses of approximately $14.6 million and $14.4 million at December 31, 2003 and 2002, respectively, the allowance to loans held for investment ratio was 1.43% in 2003 vs. 1.55% for 2002. Management considers the allowance adequate based upon its analysis of the portfolio as of December 31, 2003.

Net loan charge-offs were $4.8 million in 2003, compared with $4.1 million in 2002 and $4.0 million in 2001, respectively. Although net charge-offs increased in 2003 compared to 2002, expressed as a percentage of average loans held for investment, net charge-offs decreased from 0.49% for 2002, to 0.45% for 2003 due to the

increase in average loans of $58.7 million. The following table details loan charge-offs and recoveries by loan type for the five years ended December 31, 1999 through 2003.

Summary of Loan Loss Experience:

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands, Except Percent Data)				
Balance of allowance at beginning of period	**$14,410**	$13,952	$12,303	$11,900	$11,404
Acquisition balances	**1,583**	395	484	1,051	—
Charge-offs:					
Commercial, financial, agricultural and commercial real estate	**3,302**	2,162	1,979	2,911	562
Real estate-residential	**686**	464	720	629	268
Installment	**2,133**	2,243	2,181	1,996	2,178
Total Charge-offs	**6,121**	4,869	4,880	5,536	3,008
Recoveries:					
Commercial, financial and agricultural	**711**	167	155	267	74
Real estate-residential	**58**	129	298	82	60
Installment	**564**	428	458	553	477
Total Recoveries	**1,333**	724	911	902	611
Net charge-offs	**4,788**	4,145	3,969	4,634	2,397
Provision charged to operations	**3,419**	4,208	5,134	3,986	2,893
Balance of allowance at end of period	**$14,624**	$14,410	$13,952	$12,303	$11,900
Ratio of net charge-offs to average loans outstanding	**0.49%**	0.45%	0.47%	0.62%	0.38%
Ratio of allowance for loan losses to total loans outstanding	**1.43%**	1.55%	1.54%	1.52%	1.70%
Average Loans Outstanding	**976,072**	917,349	843,925	744,570	636,211

For additional information regarding the Allowance for Loan Losses, also see Note 6 of the Financial Statements included herein under Item 8.

Allocation of Allowance for Loan Losses:

	2003		2002		2001		2000		1999	
	(Amounts in Thousands, Except Percent Data)									
Commercial, Financial and Agricultural	$ 9,414	47.00%	$ 8,905	47.00%	$ 8,399	47.00%	$ 6,798	38.00%	$ 4,919	43.00%
Real Estate-Mortgage	2,207	41.00%	1,684	39.00%	3,543	38.00%	3,289	46.00%	2,578	39.00%
Consumer	3,003	12.00%	3,821	14.00%	2,010	15.00%	1,861	16.00%	1,413	18.00%
Unallocated	—	0.00%	—	0.00%	—	0.00%	355	0.00%	2,990	0.00%
Total	$14,624	100.00%	$14,410	100.00%	$13,952	100.00%	$12,303	100.00%	$11,900	100.00%

The percentages in the table above represent the percent of loans in each category of total loans.

Non-performing Assets

Non-performing assets include loans on which interest accruals have ceased, loans contractually past due 90 days or more and still accruing interest, and other real estate owned (OREO) pursuant to foreclosure proceedings. The levels of non-performing assets for the last five years are presented in the following table.

	December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands)				
Non-accrual loans	**$2,993**	$3,075	$3,633	$5,397	$ 7,889
Loans 90 days or more past due and still accruing interest	**—**	91	1,351	1,208	1,259
Other real estate owned	**2,091**	2,855	3,029	2,406	1,950
	$5,084	$6,021	$8,013	$9,011	$11,098
Non-performing loans as a percentage of total loans	**0.3%**	0.3%	0.6%	0.8%	1.3%
Non-performing assets as a percentage of total loans and other real estate owned	**0.5%**	0.6%	0.9%	1.1%	1.6%
Allowance for loan losses as a percentage of non-performing loans	**488.6%**	455.1%	279.9%	186.3%	130.1%
Allowance for loan losses as a percentage of non-performing assets	**287.7%**	239.3%	174.1%	136.5%	107.2%

Total non-performing assets were $5.1 million at December 31, 2003 compared to $6.0 million at December 31, 2002, a decrease of $937,000. Every component of non-performing assets improved with other real estate owned having the greatest impact, decreasing $764,000, or 26.7%. The decrease in non-accrual loans resulted from the resolution of a number of loan relationships through payment, repossession, or foreclosure and write-down of the loan balances to reflect the net realizable value of the assets. The decrease in loans 90 days or more past due is a result of movement of these credits to non-accrual status and a more aggressive approach in collecting loans past due 90 days or more.

Certain loans included in the non-accrual category have been written down to the estimated realizable value or have been assigned specific reserves within the allowance for loan losses based upon management's estimate of loss upon ultimate resolution.

During 2003, 2002 and 2001, $1,581,000, $2,168,000, and $2,116,000 of assets were acquired through foreclosure and transferred to other real estate owned.

In addition to non-performing loans reflected in the foregoing table, the Company has identified certain performing loans as impaired based upon management's evaluation of credit strength, projected ability to repay in accordance with the contractual terms of the loans and varying degrees of dependence on the sale of related collateral for liquidation of the loans. These loans were current under loan terms and were classified as performing at year-end 2003.

The following table presents the Company's investment in loans considered to be impaired and related information on those impaired loans:

	2003	2002	2001
	(Amounts in Thousands)		
Recorded investment in loans considered to be impaired	**$7,649**	$8,980	$5,129
Loans considered to be impaired that were on a non-accrual basis	**1,609**	1,238	1,229
Allowance for loan losses related to loans considered to be impaired	**2,422**	3,907	1,310
Average recorded investment in impaired loans	**7,798**	9,176	5,674
Total interest income recognized on impaired loans	**443**	512	255

Included in the table above is a loan relationship in the amount of $4.7 million which is secured by a hotel property which has suffered declines in levels of occupancy. The allowance for loan losses related to this loan was $1.5 million at December 31, 2003. This was the Company's largest impaired loan at December 31, 2003.

The Company has considered all impaired loans in the evaluation of the adequacy of the allowance for loan losses at December 31, 2003. Additional information regarding nonperforming loans can be found in Note 6 included in the Financial Statements under Item 8 of this report.

Nonperforming Loans:

	December 31,				
	2003	2002	2001	2000	1999
	(Amounts in Thousands)				
Non-accrual Loans	$2,993	$3,075	$3,633	$5,397	$7,889
Loans Past Due Over 90 Days and still accruing interest	—	91	1,351	1,208	1,259
Restructured Loans Performing in Accordance with Modified Terms	356	345	518	502	505
Gross Interest Income Which Would Have Been Recorded Under Original Terms of Non-Accruing and Restructured Loans	282	222	291	409	436
Actual Interest Income During the Period	194	108	97	105	78

Potential Problems Loans — In addition to loans which are classified as non-performing and impaired, the Company closely monitors certain loans which could develop into problem loans. These potential problem loans present characteristics of weakness or concentrations of credit to one borrower. Among these loans at December 31, 2003 was a loan of $12.8 million which warrants close monitoring to a borrower within the hospitality industry. The loan represents the retained portion of a $16 million total loan shared with a participating bank. As with other hospitality industry firms, the borrower has experienced reduced cash flow associated with declines in the level of hotel occupancy. The loan is secured by real estate improved with a national franchise hotel and parking building in a major southeast city. The loan is further secured by the guarantee of the principals of the borrowing entity. This loan, which was originated in 1999, performed according to terms until it displayed delinquency in February and March 2003 and was subsequently brought current. The loan remains current as to principal and interest at December 31, 2003. The loan has not been converted to non-accrual status based upon its secured position, historical performance and strength of guarantors. This loan does, however, represent one of the Company's largest credits and is within an industry which has suffered from declining performance in 2003.

There were no specific allocations of the allowance for loan losses for any of the foregoing potential problem loans as of December 31, 2003.

The company is also monitoring a $3.1 million loan to a hospitality borrower for a new property opened in 2003. The construction and opening of the hotel, which secures this loan was delayed and occupancy has not reached projected levels necessary to adequately fund current debt service requirements. The loan is guaranteed by the principals and is senior to a $900,000 loan by the SBA. The $3.1 million senior loan became 30 days delinquent in February 2004 and the borrower has requested conversion to interest only payments for one year to allow time for stabilization of occupancy and cash flow for the property. The company has delayed consideration of the modification request until the principals restore the loan to current status and pending the company's request for additional collateral. The ultimate resolution of the issues dealing with the modification is not expected to have a material adverse effect on the consolidated financial statements.

The Company had no foreign outstanding loans at December 31, 2003.

Although the Company's loans are made primarily in the three state region in which it operates, the Company had no concentrations of loans to one borrower or industry representing 10% or more of outstanding loans at December 31, 2003.

Deposits

Total deposits have grown $85.9 million or 7.5% since year-end 2002 as a result of the acquisition of CommonWealth. Deposits in the acquired CommonWealth branches at year-end 2003 totaled $82.6 million. In terms of composition, non-interest-bearing deposits increased $28.6 million or 17.3% while interest-bearing deposits grew $57.3 million or 5.8% from December 31, 2002.

Average total deposits increased to $1.2 billion for 2003 versus $1.1 billion in 2002, an increase of 9.57%. Average savings deposits increased by $15.1 million while time deposits increased by $33.4 million. Average interest-bearing demand and non-interest bearing demand deposits increased by $34.4 million and $21.7 million, respectively. In 2003, the average rate paid on interest bearing liabilities was 2.26%, down from the 3.03% in 2002.

Funding, Liquidity and Capital Resources:

The Company's short-term borrowings consist primarily of overnight Federal Funds purchased from the FHLB, securities sold under agreements to repurchase and callable term FHLB borrowings. This category of liabilities represents wholesale sources of funding and liquidity for the Company. Short-term borrowings increased on average approximately $16.2 million in comparison to the prior year. The increase in average short-term borrowings in 2003, along with the increase in average deposits of $104.6 million, was accompanied by an increase in total loans as these funds were used to finance the average loans held for investment portfolio growth ($58.7 million) and the average increase in available for sale securities ($67.9 million). The price sensitivity of funding cost is managed by the Company's "Product Group", which monitors product and pricing initiatives including, among other things, the management of the overall cost of funds to assist in maintaining an acceptable net interest margin, and to act as a resource in developing new products and establishing pricing guidelines.

Other indebtedness includes structured term borrowings from the FHLB of $136.3 million and $100 million at December 31, 2003 and 2002, respectively, in the form of convertible and callable advances. The callable advances may be called (redeemed) at quarterly intervals after various lockout periods. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full, converted to another FHLB credit product, or converted to an adjustable rate advance. At December 31, 2003 and 2002, respectively, the Company also held non-callable term advances of $8.3 million and $10.0 million. In 2003, the Company borrowed an additional $25 million from the FHLB. In addition, FCBI issued trust preferred securities in September 2003 of $15.0 million. The debentures sold by the Company to FCBI Capital Trust are included in the total borrowings of the Company.

The Company's short-term borrowings include securities sold under repurchase agreements. These agreements are sold to customers as an alternative to available deposit products. The underlying securities included in repurchase agreements remain under the Company's control during the effective period of the agreements. Rates paid are summarized as follows:

	2003		2002		2001	
	Amount	**Rate**	Amount	Rate	Amount	Rate
	(Amounts in Thousands, Except Percent Data):					
At year-end	**$243,003**	**3.20%**	$206,183	4.38%	$240,918	5.78%
Average during the year	**225,431**	**3.45%**	209,154	4.32%	191,660	5.17%
Maximum month-end balance	**273,929**		228,976		240,918	

For further discussion of FHLB borrowings, see Note 8 to the Notes to the Consolidated Financial Statements included in this report.

Liquidity represents the Company's ability to respond to demands for funds and is primarily derived from maturing investment securities, overnight investments, periodic repayment of loan principal, and the Company's ability to generate new deposits. The Company also has the ability to attract short-term sources of funds and draw on credit lines that have been established at financial institutions to meet cash needs.

Total liquidity of $862.2 million at December 31, 2003 is comprised of the following: cash on hand and deposits with other financial institutions of $61.6 million; securities available for sale of $444.5 million; securities held to maturity due within one year of $830,000; and Federal Home Loan Bank credit availability of $355.3 million.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally used to pay down short-term borrowings. On a longer-term basis, the Company maintains a strategy of investing in securities, mortgage-backed obligations and loans with varying maturities. The Company uses sources of funds primarily to meet ongoing commitments, to pay maturing savings certificates and savings withdrawals, fund loan commitments and maintain a portfolio of securities. At December 31, 2003, approved loan commitments outstanding amounted to $116.8 million. Certificates of deposit scheduled to mature in one year or less totaled $400.7 million. Management believes that the Company has adequate resources to fund outstanding commitments and could either adjust rates on certificates of deposit in order to retain or attract deposits in changing interest rate environments or replace such deposits with advances from the FHLB or other funds providers if it proved to be cost effective to do so.

The following tables present contractual cash obligations, contingent liabilities, commercial commitments and off-balance sheet arrangements as of December 31, 2003.

Cash Obligations:

		Total Payments Due by Period			
	Total	Less than 1 year	Two to Three Years	Four to Five Years	After 5 Years
		(In Thousands of Dollars)			
Deposits without a stated maturity(1)	$ 618,951	$ 618,951	$ —	$ —	$ —
Certificates of Deposit(2)(3)	625,518	409,035	138,400	41,141	36,942
Securities sold under agreements to repurchase	98,392	97,703	508	120	61
FHLB Advances(2)(3)	182,612	9,661	45,439	19,842	107,670
Trust Preferred Indebtedness	49,169	650	1,305	1,239	45,975
Leases	4,002	982	1,570	1,156	294
Other Commitments(4)	36,000	36,000	—	—	—
Total	$1,614,644	$1,172,982	$187,222	$63,498	190,942

1. Excludes Interest.

2. Includes interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon interest rates in effect at December 31, 2003. The interest to be paid on variable rate obligations is affected by changes in market interest rates, which materially affect the contractual obligation amounts to be paid.

3. Excludes carrying value adjustments such as unamortized premiums or discounts.

4. Acquisition of PCB Bancorp in the second quarter of 2004.

Off-Balance Sheet Arrangements:

		Amount of Commitment Expiration Per Period			
	Total	**Less than One Year**	**Two to Three Years**	**Four to Five Years**	**After Five Years**
			(In Thousands)		
Commitments:					
Commercial lines of credit	$ 64,107	$45,703	$15,152	$ 407	$ 2,845
Consumer lines of credit	29,171	10,274	905	1,265	16,727
Letters of credit	10,693	9,658	961	—	74
Total commitments	$103,971	$65,635	$17,018	$1,672	$19,646

Lines of credit with no stated maturity date are included in commitments for less than one year.

In addition to amounts listed in the foregoing table and as more fully described in Application of Critical Accounting Policies and Note 5 to the Financial Statements, UFM had option-adjusted commitments to fund mortgage loans of $46.7 million.

Stockholders' Equity

Risk-based capital ratios are a measure of the Company's capital adequacy. At December 31, 2003, the Company's Tier I capital ratio was 13.26% compared with 12.06% in 2002. Federal regulatory agencies use risk-based capital ratios and the leverage ratio to measure the capital adequacy of banking institutions. Risk-based capital guidelines, risk weighted balance sheet assets, and off-balance sheet commitments are used in determining capital adequacy. The Company's total risk-based capital-to-asset ratio was 14.55% at the close of 2003 compared with 13.33% in 2002. Both of these ratios are well above the current minimum level of 8% prescribed for bank holding companies. The leverage ratio is the measurement of total tangible equity to total assets. The Company's leverage ratio at December 31, 2003 was 8.83% versus 8.10% at December 31, 2002, both of which are well above the minimum levels prescribed by the Federal Reserve. (See Note 13 of the Notes to Consolidated Financial Statements.)

Trust and Investment Management Services

As part of its community banking services, the Company offers trust management and estate administration services through its Trust and Financial Services Division (Trust Division). The Trust Division reported market value of assets under management of $471 million and $433 million at December 31, 2003 and 2002, respectively. The Trust Division manages intervivos trusts and trusts under will, develops and administers employee benefit plans and individual retirement plans and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature and complexity of the account.

The Trust Division employs 19 professionals and support staff with a wide variety of estate and financial planning, investing and plan administration skills. The Trust Division is located within the Company's banking offices in Bluefield, West Virginia. Services and trust development activities to other branch locations and primary markets are offered through the Bluefield-based division.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

The Bank's profitability is dependent to a large extent upon its net interest income (NII), which is the difference between its interest income on interest-earning assets, such as loans and securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings. The Bank, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets reprice differently than its interest-bearing liabilities. The Bank manages its mix of assets and liabilities with the goals of limiting its exposure to interest rate risk, ensuring adequate liquidity, and coordinating its sources and uses of funds while maintaining an acceptable level of NII given the current interest rate environment.

The Company's primary component of operational revenue, NII, is subject to variation as a result of changes in interest rate environments in conjunction with unbalanced repricing opportunities on earning assets and interest-bearing liabilities. Interest rate risk has four primary components including repricing risk, basis risk, yield curve risk and option risk. Repricing risk occurs when earning assets and paying liabilities reprice at differing times as interest rates change. Basis risk occurs when the underlying rates on the assets and liabilities the institution holds change at different levels or in varying degrees. Yield curve risk is the risk of adverse consequences as a result of unequal changes in the spread between two or more rates for different maturities for the same instrument. Lastly, option risk is due to ''embedded options'' often called put or call options given or sold to holders of financial instruments.

In order to mitigate the effect of changes in the general level of interest rates, the Company manages repricing opportunities and thus, its interest rate sensitivity. The Bank seeks to control its interest rate risk (IRR) exposure to insulate net interest income and net earnings from fluctuations in the general level of interest rates. To measure its exposure to IRR, quarterly simulations of NII are performed using financial models that project NII through a range of possible interest rate environments including rising, declining, most likely and flat rate scenarios. The results of these simulations indicate the existence and severity of IRR in each of those rate environments based upon the current balance sheet position, assumptions as to changes in the volume and mix of interest-earning assets and interest-paying liabilities and management's estimate of yields to be attained in those future rate environments and rates that will be paid on various deposit instruments and borrowings. Specific strategies for management of IRR have included shortening the amortized maturity of new fixed-rate loans, increasing the volume of adjustable rate loans to reduce the average maturity of the Bank's interest-earning assets and monitoring the term structure of liabilities to maintain a balanced mix of maturity and repricing structures to mitigate the potential exposure. The simulation model used by the Company captures all earning assets, interest bearing liabilities and all off-balance sheet financial instruments and combines the various factors affecting rate sensitivity into an earnings outlook. Based upon the latest simulation, the Company believes that it is biased toward an asset sensitive position. Absent adequate management, asset sensitive positions can negatively impact net interest income in a falling rate environment or, alternatively, positively impact net interest income in a rising rate environment.

The Company has established policy limits for tolerance of interest rate risk that allow for no more than a 10% reduction in projected NII based on quarterly income simulations compared to forecasted results. In addition, the policy addresses exposure limits to changes in the Economic Value of Equity (''EVE'') according to predefined policy guidelines. The most recent simulation indicates that current exposure to interest rate risk is within the Company's defined policy limits as short-term rates are anticipated to move upward in the latter half of 2004.

The following table summarizes the impact on NII and the EVE as of December 31, 2003 and 2002, respectively, of immediate and sustained rate shocks in the interest rate environment of plus and minus 100 basis points and plus 200 basis points from the flat rate simulation. The results of the rate shock analysis depicted below differ from the results in quarterly simulations, in that all changes are assumed to take effect immediately; whereas, in the quarterly income simulations, changes in interest rates are assumed to take place over a 24-month horizon simulating a more likely scenario for a changing rate environment. This table, which illustrates the prospective effects of hypothetical interest rate changes, is based upon numerous assumptions including relative and estimated levels of key interest rates over a twelve-month time period. This type of modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential

effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal/external variables.

Rate Sensitivity Analysis

Increase (Decrease) in Interest Rates (Basis Points)	2003 Net Interest Income	% Change	Market Value of Equity	% Change
	(Amounts in Thousands)			
200	**$ 1,769**	**3.1**	**$ 4,398**	**1.5**
100	**1,227**	**2.1**	**4,334**	**1.4**
(100)	**(1,302)**	**(2.2)**	**(16,247)**	**(5.4)**

Increase (Decrease) in Interest Rates (Basis Points)	2002 Net Interest Income	% Change	Market Value of Equity	% Change
	(Amounts in Thousands)			
200	$ 4,466	7.1	$(8,709)	(5.5)
100	2,387	3.8	(3,882)	(2.5)
(100)	(2,018)	(3.2)	4,885	3.1

When comparing the impact of the rate shock analysis between 2003 and 2002, the 2003 changes in NII reflect the impact of the balance sheet composition of assets and liabilities as the profile continues to reflect asset sensitivity in a falling rate environment as more assets prepay and net interest income declines. The change results in heightened asset prepayment levels experienced in light of the interest rate environment modeled. The asset sensitivity is reflected in on-hand liquidity of $69.1 million (Federal Funds sold and interest-bearing balances held with other banks). The Company continues to reinvest excess funds into new assets (loans and securities) to support net interest income. The Company began to experience a shift in the balance sheet toward greater asset sensitivity in 2000 which was attributed to the reduced lives of certain assets and the control measures taken in prior years, and continuing throughout 2003, to reduce deposit cost and identify opportunities for product and net interest income enhancement in response to the current rate environment.

The market value of equity is a measure which reflects the impact of changing rates on the underlying value of the Company in a hypothetical scenario analysis. The value of equity within this analysis is favorably responsive to the impact of rising rates. The Company changed modeling tools in 2003 and the result provided more accurate measures of non-maturity deposits and the results for 2003 give greater weight to the value of these deposits as rates rise.

Item 8. ***Financial Statements and Supplementary Data***

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CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(Amounts in Thousands, Except Share Data)	
ASSETS		
Cash and due from banks	**$ 39,416**	$ 33,364
Interest-bearing deposits with banks	**22,136**	88,064
Federal funds sold	**—**	3,157
Total cash and cash equivalents	**61,552**	124,585
Securities available for sale (amortized cost of $436,194, 2003; $289,616, 2002)	**444,491**	300,885
Securities held to maturity (fair value, $40,060, 2003; $43,342, 2002)	**38,020**	41,014
Loans held for sale	**18,152**	66,364
Loans held for investment, net of unearned income	**1,026,191**	927,621
Less allowance for loan losses	**14,624**	14,410
Net loans held for investment	**1,011,567**	913,211
Premises and equipment	**30,021**	25,078
Other real estate owned	**2,091**	2,855
Interest receivable	**8,345**	7,897
Other assets	**17,762**	15,391
Goodwill	**39,363**	25,758
Other intangible assets	**1,363**	1,325
Total Assets	**$1,672,727**	$1,524,363
LIABILITIES		
Deposits:		
Non-interest-bearing	**$ 194,127**	$ 165,557
Interest-bearing	**1,031,490**	974,170
Total deposits	**1,225,617**	1,139,727
Interest, taxes and other liabilities	**12,037**	15,940
Securities sold under agreements to repurchase	**97,651**	91,877
FHLB borrowings and other indebtedness	**147,387**	124,357
Junior Subordinated Debt Related to Issuance of Trust Preferred Securities	**15,000**	—
Total Liabilities	**1,497,692**	1,371,901
STOCKHOLDERS' EQUITY		
Preferred stock, par value undesignated; 1,000,000 shares authorized; no shares issued and outstanding in 2003 and 2002	**—**	—
Common stock, $1 par value; 15,000,000 shares authorized in 2003 and 2002; 11,442,348 shares issued in 2003 and 10,952,385 in 2002; 11,242,443 and 10,877,330 shares outstanding in 2003 and 2002	**11,442**	9,957
Additional paid-in capital	**108,128**	58,642
Retained earnings	**56,894**	79,084
Treasury stock, at cost	**(6,407)**	(1,982)
Accumulated other comprehensive income	**4,978**	6,761
Total Stockholders' Equity	**175,035**	152,462
Total Liabilities and Stockholders' Equity	**$1,672,727**	$1,524,363

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2003	**2002**	**2001**
	(Amounts in Thousands, Except Share and Per Share Data)		
Interest Income			
Interest and fees on loans held for investment	**$ 70,432**	$ 72,415	$ 72,582
Interest on loans held for sale	**2,367**	3,584	2,956
Interest on securities-taxable	**13,138**	13,001	10,259
Interest on securities-nontaxable	**6,488**	6,819	6,190
Interest on federal funds sold and deposits in banks	**615**	385	842
Total interest income	**93,040**	96,204	92,829
Interest Expense			
Interest on deposits	**19,950**	25,366	31,884
Interest on FHLB and other short-term borrowings	**7,767**	9,035	9,913
Interest on other indebtedness	**657**	607	612
Total interest expense	**28,374**	35,008	42,409
Net interest income	**64,666**	61,196	50,420
Provision for loan losses	**3,419**	4,208	5,134
Net interest income after provision for loan losses	**61,247**	56,988	45,286
Non-interest Income			
Fiduciary income	**1,788**	1,773	1,815
Service charges on deposit accounts	**8,071**	7,056	5,966
Other service charges, commissions and fees	**2,384**	1,380	1,435
Mortgage banking income	**7,165**	9,435	9,582
Net securities gains (losses)	**1,198**	(391)	181
Other operating income	**1,101**	796	1,296
Total non-interest income	**21,707**	20,049	20,275
Non-interest Expense			
Salaries and employee benefits	**26,759**	23,267	19,830
Occupancy expense of bank premises	**3,348**	2,874	2,615
Furniture and equipment expense	**2,248**	2,082	1,814
Amortization of intangible assets	**243**	245	2,285
Other operating expense	**14,356**	13,801	11,481
Goodwill impairment	**397**	—	—
Total non-interest expense	**47,351**	42,269	38,025
Income before income taxes	**35,603**	34,768	27,536
Income tax expense	**10,365**	10,049	8,402
Net Income	**$ 25,238**	$ 24,719	$ 19,134
Weighted average basic shares outstanding	**11,096,900**	10,917,100	10,938,741
Weighted average diluted shares outstanding	**11,198,353**	10,970,442	10,979,011
Basic earnings per common share	**$ 2.27**	$ 2.26	$ 1.75
Diluted earnings per common share	**$ 2.25**	$ 2.25	$ 1.75

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Operating Activities			
Cash flows from operating activities:			
Net income	**$ 25,238**	$ 24,719	$ 19,134
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	**3,419**	4,208	5,134
Depreciation of premises and equipment	**1,979**	1,630	1,490
Intangible amortization	**243**	245	136
Other intangible accretion	**(266)**	(212)	(166)
Net investment amortization and accretion	**2,842**	1,467	485
Net (gain) loss on the sale of assets	**(1,059)**	1,277	(145)
Net gain on sale of loans	**(6,899)**	(12,946)	(7,514)
Mortgage loans originated for sale	**(854,326)**	(737,101)	(563,018)
Proceeds from sale of mortgage loans	**909,437**	749,039	516,812
Deferred income tax expense (benefit)	**578**	993	(332)
Decrease in interest receivable	**—**	1,082	874
Decrease (increase) in other assets	**3,531**	(2,644)	2,289
(Decrease) increase in other liabilities	**(3,882)**	410	2,728
Net cash provided by (used in) operating activities	**80,835**	32,170	(22,093)
Investing Activities			
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	**10,192**	15,871	18,907
Proceeds from maturities and calls of securities available for sale	**150,877**	94,815	102,458
Proceeds from maturities and calls of held to maturity securities	**3,058**	1,754	1,602
Purchase of securities available for sale	**(307,886)**	(41,527)	(232,056)
Purchase of investment securities held to maturity	**(75)**	—	—
Net decrease (increase) in loans made to customers	**19,289**	(9,300)	(67,115)
Cash provided by acquisitions, net	**1,324**	1,982	77,021
Purchase of premises and equipment	**(6,808)**	(5,545)	(3,462)
Proceeds from sale of equipment	**405**	—	127
Net cash (used in) provided by investing activities	**(129,624)**	58,050	(102,518)
Financing Activities			
Cash flows from financing activities:			
Net increase in demand and savings deposits	**983**	52,874	36,144
Net (decrease) increase in time deposits	**(20,019)**	(19,059)	28,625
Net increase (decrease) in short-term debt	**14,072**	(34,734)	66,902
Repayment of long-term debt	**(8,016)**	(114)	(14)
Net proceeds from debt — trust preferred securities	**14,560**	—	—
Acquisition of treasury stock	**(4,977)**	(2,491)	(599)
Dividends paid	**(10,847)**	(9,926)	(8,875)
Net cash (used in) provided by financing activities	**(14,244)**	(13,450)	122,183
Cash and Cash Equivalents Net (decrease) increase in cash and cash equivalents	**(63,033)**	76,770	(2,428)
Cash and cash equivalents at beginning of year	**124,585**	47,815	50,243
Cash and cash equivalents at end of year	**$ 61,552**	$ 124,585	$ 47,815

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
	(Amounts in Thousands Except Share and Per Share Information)					
Balance December 31, 2000	$ 9,052	$ 35,273	$ 78,097	$ (202)	$(1,538)	$120,682
Comprehensive income:						
Net income	—	—	19,134	—	—	19,134
Other Comprehensive income						
Unrealized gains on securities available for sale, net of tax	—	—	—	—	2,402	2,402
Less reclassification adjustment for gains realized in net income, net of tax	—	—	—	—	(109)	(109)
Comprehensive income	—	—	19,134	—	2,293	21,427
Common dividends declared ($.89 per share)	—	—	(8,875)	—	—	(8,875)
Purchase 27,036 treasury shares at $22.17 per share	—	—	—	(599)	—	(599)
Issuance of ESOP shares	—	29	—	377	—	406
Effect of 10% stock dividend	903	24,887	(25,790)	—	—	—
Balance December 31, 2001	9,955	60,189	62,566	(424)	755	$133,041
Comprehensive income:						
Net income	—	—	24,719	—	—	24,719
Other Comprehensive income						
Unrealized gains on securities available for sale, net of tax	—	—	—	—	5,770	5,770
Less reclassification adjustment for gains realized in net income, net of tax	—	—	—	—	236	236
Comprehensive income	—	—	24,719	—	6,006	30,725
Common dividends declared ($1.00 per share)	—	—	(9,926)	—	—	(9,926)
Purchase 85,844 treasury shares at $29.00 per share	—	—	—	(2,491)	—	(2,491)
Issuance of 5,500 shares under stock option plan	—	42	—	155	—	197
Issuance of ESOP shares	—	140	—	792	—	932
Fractional share adjustment for 10% stock dividend	2	(1,729)	1,725	(14)	—	(16)
Balance December 31, 2002	9,957	58,642	79,084	(1,982)	6,761	$152,462
Comprehensive income:						
Net income			25,238			$ 25,238
Other comprehensive income Unrealized gains on securities available for sale, net of tax					(2,494)	(2,494)
Less reclassification adjustment for gains realized in net income, net of tax					711	711
Comprehensive income	—	—	25,238	—	(1,783)	23,455
Common dividends declared ($.98 per share)			(10,847)			(10,847)
Purchase 153,500 treasury shares at $32.43 per share				(4,977)		(4,977)
Acquisition of Stone Capital Management — 8,409 shares issued	8	236				244
Issuance of 63,095 shares under stock option plan	49	311		349		709
Acquisition of CommonWealth Bank — 389,609 shares issued	390	12,904				13,294
10% Stock Dividend & Fractional Adjustment	1,038	35,992	(36,581)	(477)		(28)
Issuance of ESOP shares		43		680		723
Balance December 31, 2003	$11,442	$108,128	$ 56,894	$(6,407)	$ 4,978	$175,035

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of First Community Bancshares, Inc. and subsidiaries (''First Community'' or the ''Company'') conform to accounting principles generally accepted in the United States and to predominant practices within the banking industry. In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Assets held in an agency or fiduciary capacity are not assets of the Company and are not included in the accompanying consolidated balance sheets.

Principles of Consolidation

The consolidated financial statements of First Community include the accounts of all wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. First Community operates in the community banking and mortgage banking segments.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, time deposits with other banks, federal funds sold, and interest-bearing balances on deposit with the Federal Home Loan Bank that are available for immediate withdrawal. Interest and income taxes paid were as follows:

	2003	2002	2001
	(Amounts in Thousands)		
Interest	**$30,988**	$36,273	$42,968
Income taxes	**10,382**	9,523	6,945

Pursuant to agreements with the Federal Reserve Bank, the Company maintains a cash balance of approximately $1 million in lieu of charges for check clearing and other services.

Trading Securities

At December 31, 2003 and 2002, no securities were held for trading purposes and no trading account was maintained.

Securities Available for Sale

Securities to be held for indefinite periods of time including securities that management intends to use as part of its asset/liability management strategy, and that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors are classified as available for sale and are recorded at estimated fair value. Unrealized appreciation or depreciation in fair value above or below amortized cost is included in stockholders' equity net of income taxes and is entitled ''Other Comprehensive Income.'' Premiums and discounts are amortized to expense or accreted to income over the life of the security. Gain or loss on sale is based on the specific identification method. Other than temporary losses on available for sale securities are included in net securities losses and gains. All securities including securities held to maturity are evaluated for indications of impairment in accordance with the latest guidance issued by the Emerging Issues Task Force (''EITF'') of the Financial Accounting Standards Board (''FASB''). For debt securities available for sale with unrealized losses, management has the intent and ability to hold these securities until such time as the value recovers or the securities mature.

Securities Held to Maturity

Investments in debt securities that management has the ability and intent to hold to maturity are carried at cost. Premiums and discounts are amortized to expense and accreted to income over the lives of the securities. Gain or loss on the call or maturity of investment securities, if any, is recorded based on the specific identification method.

Loans Held for Sale and Derivative Financial Investments

Loans held for sale primarily consist of one to four family residential loans originated for sale in the secondary market and carried at the lower of cost or estimated fair value determined on an aggregate basis. Gains and losses on sales of loans held for sale are included in mortgage banking income in the Consolidated Statements of Income.

For loans to be sold, the Company enters into forward commitments and options or derivatives to manage the risk inherent in interest rate lock commitments made to potential borrowers. The inventory of loans and loan commitments (both retail and wholesale) is hedged to reduce the interest rate risk and any corresponding fluctuation in cash flows derived upon settlement of the loans with secondary market purchasers, and consequently, to achieve a desired margin upon delivery. The hedge transactions are used for risk mitigation and are not for trading purposes. The derivative financial instruments stemming from these hedging transactions are recorded at fair value in Other Assets and Liabilities on the Consolidated Balance Sheets and the changes in fair value are reflected in Mortgage Banking Income on the Consolidated Statements of Income. For the year ended December 31, 2003, the net derivative expense reflected in the Consolidated Statements of Income, was $3.14 million which is comprised of a $490,000 increase in the fair value of the forward mortgage contracts, a $1.5 million expense associated with the contract settlements including option expense, and a $2.1 million decline in the value of rate lock commitments. Forward mortgage contracts are settled at fair value upon expiration of the contract and result in either the payment or receipt or funds while option contracts are paid for in advance and amortized to expense over their useful life. UFM's accumulated net derivative position was $83,000 and $1.7 million as of December 31, 2003 and 2002, respectively.

Loans transferred to the held for sale classification are transferred at fair value. Any write-down recorded at the point of transfer is charged to the allowance for loan losses. Subsequent write-downs in fair value are recorded in non-interest expense while further appreciation in fair value is not recorded. No loans were transferred from held for investment to the held for sale category in 2003. During the fourth quarter of 2002, the Company transferred $6.0 million in loans held for investment to loans held for sale and recognized a write-down through the allowance for loan losses of $246,000.

In December 2003, the Securities and Exchange Commission (''SEC'') issued informal guidance on the methods that the SEC feels Companies should use to account for and record interest rate lock commitments (''IRLC''). The guidance which will be formalized in a forthcoming staff accounting bulletin is expected to indicate that IRLC's should be valued as a liability and expensed and remain as a liability until the expiration or culmination of the contract. The SEC staff emphasized that this accounting treatment should be applied to all loan commitments originated in the first reporting period beginning after March 15, 2004. This will result in a change in practice for many mortgage banking firms since there are a number of valuation methods currently employed throughout the industry resulting in a number of divergent practices. The impact of adopting this standard beginning April 1, 2004 will shift a portion of the expense recognition into periods preceding the actual revenue recognition.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level deemed adequate to absorb probable losses inherent in the loan portfolio. The Company consistently applies a monthly review process to continually evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses. The allowance is maintained by making specific allocations to impaired loans and loan pools that exhibit inherent weaknesses and various credit risk factors. Allocations to loan pools are

developed giving weight to risk ratings, historical loss trends and management's judgment concerning those trends and other relevant factors.

The allowance is allocated to specific loans to cover loan relationships identified with significant cash flow weaknesses and for which a collateral deficiency may be present. The allowance established under the specific reserve method is based upon the borrower's estimated cash flow and projected liquidation value of related collateral. The allowance is allocated to pools of loans based on historical loss experience to cover the homogeneous and nonhomogeneous loans not individually evaluated. Pools of loans are grouped by specific category and risk characteristics. To determine the amount of allowance needed for each loan category, an estimated loss percentage is developed based upon historical loss experience. The historical loss experience is weighted for various risk factors including macro and micro economic conditions, qualitative assessments relative to the composition of the loan portfolio, the level of delinquencies and non-accrual loans, trends in the volume and term of loans, anticipated impact from changes in lending policies and procedures, and any concentration of credits in certain industries or geographic areas. The calculated percentage is used to determine the estimated allowance excluding any relationships specifically identified and evaluated. While allocations are made to specific loans and classifications within the various categories of loans, the reserve is available for all loan losses.

The allowance for loan losses related to impaired loans is based upon the discounted estimated cash flows or fair value of collateral when it is probable that all amounts due pursuant to contractual terms of the loan will not be collected and the recorded investment in the loan exceeds the fair value. Certain smaller balance, homogeneous loans, such as consumer installment loans and residential mortgage loans, are evaluated for impairment on an aggregate basis in accordance with the Company's policy.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives. Maintenance and repairs are charged to current operations while improvements that extend the economic useful life of the underlying asset are capitalized. Disposition gains and losses are reflected in current operations. In addition, any material excess of the carrying value over the fair value is recorded as an impairment loss.

Loan Interest Income Recognition

Accrual of interest on loans is based generally on the daily amount of principal outstanding. It is the Company's policy to discontinue the accrual of interest on loans based on the payment status and evaluation of the related collateral and the financial strength of the borrower. The accrual of interest income is normally discontinued when a loan becomes 90 days past due as to principal or interest. Management may elect to continue the accrual of interest when the loan is well secured and in process of collection. When interest accruals are discontinued, interest accrued and not collected in the current year is reversed and interest accrued and not collected from prior years is charged to the reserve for possible loan losses. Interest income realized on impaired loans is recognized upon receipt if the impaired loan is on a non-accrual basis.

Loan Fee Income

Loan origination and underwriting fees are recorded as a reduction of direct costs associated with loan processing, including salaries, review of legal documents, obtainment of appraisals, and other direct costs. Fees in excess of those related direct costs are deferred and amortized over the life of the related loan. Loan commitment fees are deferred and amortized over the related commitment period.

Other Real Estate Owned

Other real estate owned and acquired through foreclosure is stated at the lower of cost or fair value less estimated costs to sell. Loan losses arising from the acquisition of such properties are charged against the allowance for possible loan losses. Expenses incurred in connection with operating the properties, subsequent write-downs and gains or losses upon sale are included in other non-interest income and expense.

Stock Dividend

On June 17, 2003, the Company's Board of Directors declared a 10% stock dividend to shareholders of record as of August 1, 2003, which was distributed on August 15, 2003. Average shares outstanding and per share amounts included in the consolidated financial statements have been adjusted to reflect the impact of the stock dividend.

Stock Options

The Company has a stock option plan for certain executives and directors accounted for under the intrinsic value method. Because the exercise price of the Company's employee/director stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In 2003, with the acquisition of CommonWealth, the Company assumed additional stock options on 120,155 shares, (adjusted by the merger conversion factor of .9015 and the 10% stock dividend in 2003). These options were issued by CommonWealth in 12 grants beginning in 1994 and ending in 2002 and, following the merger, reflect adjusted exercise prices ranging from $4.75 to $17.40. These options are fully vested and are exercisable for up to ten years following the grant date.

In December 2002, the FASB issued FAS 148, "Accounting for Stock-Based Compensation." This standard provided alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. In addition, the Statement requires prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the underlying effect of the method used on reported results until exercised.

The effect of option shares on earnings per share relates to the dilutive effect of the underlying options outstanding. To the extent the granted exercise share price is less than the current market price, ("in the money"), there is an economic incentive for the shares to be exercised and an increase in the dilution effect on earnings per share.

Assuming the use of the fair value method of accounting for stock options, pro forma net income and earnings per share would have been as follows:

	2003	2002	2001
	(Amounts in Thousands, Except Per Share Data)		
Net income as reported	**$25,238**	$24,719	$19,134
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(150)**	(163)	(310)
	$25,088	$24,556	$18,824
Earnings per share:			
Basic as reported	**$ 2.27**	$ 2.26	$ 1.75
Basic pro forma	**$ 2.26**	$ 2.25	$ 1.72
Diluted as reported	**$ 2.25**	$ 2.25	$ 1.75
Diluted pro forma	**$ 2.24**	$ 2.24	$ 1.72

The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions: i) risk-free interest rate of 4.03%, 5.15% and 5.12% for 2003, 2002 and 2001, respectively; ii) a dividend yield of 2.96%, 3.20% and 3.40% for 2003, 2002 and 2001, respectively; iii) volatility factors for the expected market price of the Company's common stock of 22.8%, 24.5% and 31.2% for 2003, 2002 and 2001, respectively; and iv) a weighted-average expected life of the option of 11.97, 10.4 and 12.2 years, for 2003, 2002 and 2001, respectively.

Intangible Assets

The excess of the cost of an acquisition over the fair value of the net assets acquired is recorded as goodwill. The net carrying amount of goodwill was $39.4 million and $25.8 million at December 31, 2003 and 2002, respectively. The net carrying amount of goodwill at December 31, 2003 and 2002 related to the mortgage banking segment was $1.4 million and $1.8 million, respectively, while the net carrying amount of goodwill related to the community banking segment at December 31, 2003 and 2002 was $38.0 million and $24.0 million, respectively. A portion of the purchase price in certain transactions has been allocated to values associated with the future earnings potential of acquired deposits and is being amortized over the estimated lives of the deposits, ranging from seven to ten years while the weighted average remaining life of these core deposits is slightly greater than 3.8 years. As of December 31, 2003 and 2002, the balance of core deposit intangibles was $3.07 million and $2.9 million, respectively, while the corresponding accumulated amortization was $1.7 million and $1.2 million, respectively. The current year acquisition of CommonWealth added an additional $13.6 million of goodwill and $471,000 in other intangibles, while the 2002 acquisition of Monroe added an additional $441,000 in deposit intangible. The net unamortized balance of identified intangibles associated with acquired deposits was $1.4 million and $1.3 million at December 31, 2003 and 2002, respectively. Amortization expense of intangibles for each of the next five years is approximately $225,000 annually.

With the adoption of FAS No. 142 and FAS No. 147 in 2002, the Company ceased amortization of certain goodwill subject to an annual impairment test. The impairment test involves identifying separate reporting units based on the reporting structure of the Company, then assigning all assets and liabilities, including goodwill, to these units. Each reporting segment (community and mortgage banking) is then tested for goodwill impairment by comparing the fair value of the unit with its book value, including goodwill. If the fair value of the reporting unit is greater than its book value, no goodwill impairment exists. However, if the book value of the reporting unit is greater than its determined fair value, goodwill impairment may exist and further testing is required to determine the amount, if any, of the actual impairment loss. Through the results of impairment tests, management has concluded that an impairment charge of approximately $400,000 was appropriate for the mortgage banking segment in the fourth quarter of 2003.

The progression of the Company's goodwill and intangible assets for the year ended December 31, 2003 is detailed in the following table:

	Goodwill	Other Intangibles
Balance at December 31, 2002	$25,758	$1,325
Acquisitions	14,478	471
Tax Benefits, Exercise of Stock Options, and Other Adjustments	(476)	(190)
Amortization	—	243
Impairment Charge	(397)	—
Balance at December 31, 2003	$39,363	$1,363

Recent Accounting Developments

In December 2003, the AICPA issued Statement of Position ("SOP") 03-3 *"Accounting for Certain Loans or Debt Securities Acquired in a Transfer"*. This statement, which is effective for loans acquired in fiscal years beginning after December 15, 2004, addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. This standard will require a fair value measure of loans acquired and as such no corresponding loss reserve will be permitted on all loans acquired in a transfer that are within the scope of SOP 03-3. The impact of the Standard is prospective to adoption but require new recognition and measurement techniques.

In May 2003 the FASB issued Statement 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"*, which established standards for classification and measurement

of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not materially impact the financial statements of the Company.

In April 2003, the FASB issued Statement 149, *''Amendment of FASB Statement 133 on Derivative and Hedging Transactions,''* which amended and clarified accounting for derivative instruments, including certain derivatives embedded in other instruments and for hedging activities under Statement 133. Statement 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in Statement 133. The provisions of Statement 149 were effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a material adverse affect on the financial condition, results of operation or cash flows of the Company.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities which provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity is required to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation became effective upon issuance. In December 2003, the FASB reissued FIN 46. This guidance was effective for interests in certain VIE's as of December 31, 2003. The adoption of this Statement did not have a material adverse affect on the financial condition, results of operation or cash flows of the Company.

In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier 1 capital for regulatory capital purposes until notice is given to the contrary. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier 1 capital for regulatory capital purposes. At December 31, 2003, $15 million in trust preferred securities issued by FCBI Capital Trust were outstanding that are treated as Tier 1 capital for bank regulatory purposes. If FCBI's outstanding trust preferred securities at December 31, 2003 were not treated as Tier 1 capital at that date, FCBI's Tier 1 leverage capital ratio would have declined from 8.83% to 7.91%, its Tier 1 risk-based capital ratio would have declined from 13.26% to 11.88%, and its total risk-based capital ratio would have declined from 14.55% to 13.17% as of December 31, 2003. These reduced capital ratios would continue to meet the applicable ''well capitalized'' Federal Reserve capital requirements.

Income Taxes

The Company and its subsidiary file a consolidated federal income tax return. The provision for income tax expense and the underlying effective rate are determined based upon a combination of the enacted statutory federal and state rates and is reduced or increased by any corresponding nontaxable income or nondeductible expenses, respectively.

Deferred income taxes, which are included in other assets, are recognized for the tax consequences of ''temporary differences'' by applying enacted statutory tax rates to the differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The book versus tax basis difference is created by the timing of expense and/or income recognition required for financial accounting reporting purposes as opposed to what is required statutorily by enacted federal and state tax laws, as well as differences assigned to the underlying asset and liability values at acquisition.

Earnings Per Share

Basic earnings per share is determined by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share is determined by dividing net income by the weighted average shares outstanding increased by the dilutive effect of stock options. Basic and diluted net income per common share calculations follow:

	For the Year Ended December 31,		
	2003	**2002**	**2001**
	(Amounts in Thousands, Except Per Share Data)		
Basic:			
Net income	**$ 25,238**	$ 24,719	$ 19,134
Weighted average shares outstanding	**11,096,900**	10,917,100	10,938,741
Earnings per share — basic	**$ 2.27**	$ 2.26	$ 1.75
Diluted:			
Net income	**$ 25,238**	$ 24,719	$ 19,134
Weighted average shares outstanding	**11,096,900**	10,917,100	10,938,741
Dilutive shares for stock options	**101,453**	53,342	40,270
Weighted average dilutive shares outstanding	**11,198,353**	10,970,442	10,979,011
Earnings per share — dilutive	**$ 2.25**	$ 2.25	$ 1.75

Note 2. Merger and Acquisitions

On December 31, 2003, the Company announced the signing of a definitive merger agreement pursuant to which the Company will acquire PCB Bancorp, Inc., a Tennessee-chartered bank holding company (“PCB Bancorp”). PCB Bancorp has five full service branch offices located in Johnson City, Kingsport and surrounding areas in Washington and Sullivan Counties in East Tennessee. PCB Bancorp, which is headquartered in Johnson City, Tennessee, had total assets of $172 million, total deposits of $150 million and total stockholders’ equity of $13.8 million as of September 30, 2003.

Under the terms of the merger agreement, shares of PCB Bancorp common stock will be purchased for $40.00 per share in cash. The total deal value, including the cash-out of outstanding stock options, is approximately $36.0 million. Concurrent with the PCB Bancorp merger, Peoples Community Bank, the wholly-owned subsidiary of PCB Bancorp, will be merged into First Community Bank, N.A., a wholly-owned subsidiary of First Community Bancshares, Inc. The merger is expected to close late in the first quarter of 2004, pending the receipt of all requisite regulatory approvals and the approval of PCB Bancorp’s shareholders.

On June 6, 2003, the Company acquired The CommonWealth Bank, a Virginia-chartered commercial bank (“CommonWealth”). CommonWealth’s four branch facilities located in the Richmond, Virginia metro area were simultaneously merged with and into the Bank. The completion of this transaction resulted in the addition of $136.5 million in assets, including $120.0 million in loans and added an additional $105.0 million in deposits to the Bank. As a result of allocation, the $14.1 million excess of purchase price over the fair market value of the net assets acquired and identified intangibles was recorded as goodwill.

In January 2003, the Bank acquired Stone Capital Management, Inc. (“Stone Capital”), with an office in Beckley, West Virginia. This acquisition expanded the Bank’s operations into wealth management, asset allocation, financial planning and investment advice. Stone Capital was acquired through the issuance of 8,409 shares of Company common stock, which represents 50% of the total consideration. The balance of the consideration is payable over three years, beginning in 2004, in the form of Company common stock subject to revenue minimums outlined in the acquisition agreement.

Note 3. Securities Available for Sale

As of December 31, the amortized cost and estimated fair value of securities classified as available for sale are as follows:

	2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	**$257,629**	**$2,704**	**$(1,351)**	**$258,982**
States and political subdivisions	**100,708**	**$2,477**	**$ (134)**	**$103,051**
Other securities	**77,857**	**$4,626**	**$ (25)**	**$ 82,458**
Total	**$436,194**	**$9,807**	**$(1,510)**	**$444,491**

	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	$138,981	$ 5,006	$ —	$143,987
States and political subdivisions	93,587	$ 2,739	$(620)	$ 95,706
Other securities	57,048	$ 4,144	$ —	$ 61,192
Total	$289,616	$11,889	$(620)	$300,885

	2001			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	$195,689	$ 981	$ (467)	$196,203
States and political subdivisions	97,683	1,230	(1,464)	97,449
Other securities	59,387	1,022	(54)	60,355
Total	$352,759	$3,233	$(1,985)	$354,007

Securities available for sale with estimated fair values of $243,076,746 and $207,391,813 at December 31, 2003 and 2002, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and other short-term borrowings and for other purposes. Pledging of securities is accomplished through the use of an intermediary where securities pledged are recorded for the benefit of the depositor, public agency or to secure other short-term borrowings.

As a condition to membership in the Federal Home Loan Bank (''FHLB'') system, FCBNA is required to subscribe to a minimum level of stock in the FHLB of Atlanta. At December 31, 2003, FCBNA owned approximately $7.2 million in stock which is classified as available for sale.

The amortized cost and estimated fair value of securities available for sale by contractual maturity, at December 31, 2003, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. In 2003, net gains on the sale of securities were $1.2 million, almost entirely due to the sale of certain short-term equity investments in the third quarter of 2003. Gross gains were $1.2 million while gross losses were only $5,000 during 2003.

During 2002, the recognized net security losses in the available for sale securities portfolio were $393,000. The net loss included gross losses of $576,000 resulting from an other-than-temporary write-down of a municipal issue within the portfolio, losses from the sale of securities of $313,000 and offsetting gross gains of $496,000 resulting from securities sold and called.

	U.S. Government Agencies & Corporations	States and Political Subdivisions	Other Securities	Total	Tax Equivalent Purchase Yield
	(Amounts in Thousands)				
Amortized Cost					
Maturity:					
Within one year	**$ —**	**$ 2,140**	**$ 5,258**	**$ 7,398**	**6.15%**
After one year through five years	**10,766**	**6,770**	**40,964**	**58,500**	**5.86%**
After five years through ten years	**127,252**	**6,194**	**—**	**133,446**	**4.59%**
After ten years	**119,611**	**85,604**	**31,635**	**236,850**	**5.41%**
Total amortized cost	**$257,629**	**$100,708**	**$77,857**	**$436,194**	
Tax equivalent purchase yield	**4.46%**	**7.57%**	**4.80%**	**5.23%**	
Average maturity (in years)	**16.17**	**13.74**	**13.98**	**15.22**	
Fair Value					
Maturity:					
Within one year	**$ —**	**$ 2,184**	**$ 5,447**	**$ 7,631**	
After one year through five years	**10,897**	**7,004**	**44,439**	**62,340**	
After five years through ten years	**127,371**	**6,439**	**—**	**133,810**	
After ten years	**120,714**	**87,424**	**32,572**	**240,710**	
Total fair value	**$258,982**	**$103,051**	**$82,458**	**$444,491**	

At December 31, 2003, the combined depreciation in value of the individual securities in an unrealized loss position for less than 12 months was less than 1% of the combined reported value of the aggregate securities portfolio. Management does not believe any individual unrealized loss as of December 31, 2003 represents an other-than-temporary impairment. The Company has the intent and ability to hold these securities until such time as the value recovers or the securities mature. Furthermore, the Company believes the value is attributable to changes in market interest rates and not the credit quality of the issuer.

The following table reflects those investments in a continuous unrealized loss position for less than 12 months. There are currently no securities in a continuous unrealized-loss position for 12 or more months.

	Less than 12 Months		12 Months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Amounts in Thousands)					
U. S. Government agency securities	$114,191	$(1,351)	$ —	$ —	$114,191	$(1,351)
States and political subdivisions	10,095	(134)	—	—	10,095	(134)
Other Securities	10,275	(25)	—	—	10,275	(25)
Subtotal, debt securities	134,561	(1,510)	—	—	134,561	(1,510)
Common stock	—	—	—	—	—	—
Total	$134,561	$(1,510)	$ —	$ —	$134,561	$(1,510)

Note 4. Securities Held to Maturity

The following table presents amortized cost and approximate fair values of investment securities held to maturity at December 31:

	2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	**$ 124**	**$ 4**	**$ —**	**$ 128**
States and political subdivisions	**37,521**	**2,036**	**—**	**39,557**
Other securities	**375**	**—**	**—**	**375**
Total	**$38,020**	**$2,040**	**$ —**	**$40,060**

	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	$ 336	$ 8	$ —	$ 344
States and political subdivisions	40,303	2,320	—	42,623
Other securities	375	—	—	375
Total	$41,014	$2,328	$ —	$43,342

	2001			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Amounts in Thousands)			
U.S. Government agency securities	$ 743	$ 16	$ —	$ 759
States and political subdivisions	39,768	1,487	—	41,255
Other securities	1,373	6	—	1,379
Total	$41,884	$1,509	$ —	$43,393

	U.S. Government Agencies & Corporations	States and Political Subdivisions	Other Securities	Total	Tax Purchase Yield
		(Amounts in Thousands)			
Amortized Cost					
Maturity:					
Within one year	**$ —**	**$ 850**	**$ —**	**$ 850**	**7.62%**
After one year through five years	**—**	**4,773**	**375**	**5,148**	**8.68%**
After five years through ten years	**124**	**19,891**	**—**	**20,015**	**8.55%**
After ten years	**—**	**12,007**	**—**	**12,007**	**8.92%**
Total amortized cost	**$124**	**$37,521**	**$375**	**$38,020**	
Tax equivalent purchase yield	**3.51%**	**8.70%**	**6.30%**	**8.66%**	
Average contractual maturity (in years)	**7.27**	**8.15**	**4.79**	**8.11**	
Fair Value					
Maturity:					
Within one year	**$ —**	**$ 861**	**$ —**	**$ 861**	
After one year through five years	**—**	**5,060**	**375**	**5,435**	
After five years through ten years	**128**	**20,973**	**—**	**21,101**	
After ten years	**—**	**12,663**	**—**	**12,663**	
Total fair value	**$128**	**$39,557**	**$375**	**$40,060**	

Various investment securities classified as held to maturity with an amortized cost of approximately $4,457,779 and $4,454,299 were pledged at December 31, 2003 and 2002, respectively, to secure public deposits and for other purposes required by law.

Note 5. Loans

Loans held for investment, net of unearned income consist of the following at December 31:

	2003	2002
	(Amounts in Thousands)	
Real estate-commercial	**$ 317,421**	$285,847
Real estate-construction	**98,510**	72,275
Real estate-residential	**421,288**	364,065
Commercial, financial and agricultural	**69,395**	74,186
Loans to individuals for household and other consumer expenditures	**118,585**	130,522
All other loans	**992**	726
	$1,026,191	$927,621

FCBNA is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding at December 31, 2003.

Financial instruments whose contract amounts represent credit risk at December 31, 2003 are commitments to extend credit (including availability of lines of credit) — $93.3 million, and standby letters of credit and financial guarantees written — $10.7 million. At December 31, 2003, FCBNA's subsidiary, United First Mortgage, Inc. (UFM), had commitments to originate loans of $46.7 million. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral deemed necessary by the Company is based on management's credit evaluation and underwriting guidelines for the particular loan. Commitments outstanding, excluding the aforementioned mortgage loan commitments originated by UFM of $46.7 million, at December 31, 2003 are summarized in the following table:

	2003	
	Notional Amount	Rate
	(Amounts in Thousands)	
Real estate-commercial (fixed)	**$ 2,899**	**5.00 - 10.00**
Real estate-commercial (variable)	**14,250**	**2.00 - 8.75**
Real estate-construction (fixed)	**10,151**	**4.25 - 9.75**
Real estate-construction (variable)	**25,714**	**4.00 - 10.00**
Real estate-residential (fixed)	**2,363**	**4.00 - 18.00**
Real estate-residential (variable)	**20,762**	**3.50 - 12.00**
Commercial, financial, agricultural (fixed)	**1,846**	**3.35 - 18.00**
Commercial, financial, agricultural (variable)	**19,820**	**2.00 - 10.50**
Loans to individuals for household and other consumer expenditures (fixed)	**4,387**	**3.10 - 18.50**
Loans to individuals for household and other consumer expenditures (variable)	**1,779**	**4.00 - 14.50**
Total	**$103,971**	

Management analyzes the loan portfolio regularly for concentrations of credit risk, including concentrations in specific industries and geographic location. At December 31, 2003, commercial real estate loans comprised 30.9% of the total loan portfolio. Commercial loans include loans to small to mid-size industrial, commercial and service companies that include but are not limited to coal mining companies, manufacturers, automobile dealers, and retail and wholesale merchants. Commercial real estate projects represent several different sectors of the commercial real estate market, including residential land development, single family and apartment building operators, commercial real estate lessors, and hotel/motel developers. Underwriting standards require comprehensive reviews and independent evaluations be performed on credits exceeding predefined market limits on commercial loans. Updates to these loan reviews are done periodically or on an annual basis depending on the size of the loan relationship.

The majority of the loans in the current portfolio, other than commercial and commercial real estate, were made and collateralized in West Virginia, Virginia, North Carolina and the surrounding mid-Atlantic area. Although sections of the West Virginia and Southwestern Virginia economies are closely related to natural resource production, they are supplemented by service industries. The Company's presence in three states, West Virginia, Virginia, and North Carolina, provides additional diversification against geographic concentrations of credit risk.

In the normal course of business, FCBNA has made loans to directors and executive officers of the Company and its subsidiary. All loans and commitments made to such officers and directors and to companies in which they are officers, or have significant ownership interest, have been made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. The aggregate dollar amount of such loans was $7.8 million and $6.0 million at December 31, 2003 and 2002, respectively. During 2003, $5.0 million of new loans were made, repayments totaled $2.9 million, and other changes due to the change in composition of FCBNA's board members and executive officers approximated $0.4 million.

Note 6. Allowance for Loan Losses

Activity in the allowance for loan losses was as follows:

	2003	2002	2001
	(Amounts in Thousands)		
Balance, January 1	**$14,410**	$13,952	$12,303
Provision for loan losses	**3,419**	4,208	5,134
Acquisition balance	**1,583**	395	484
Loans charged off	**(6,121)**	(4,868)	(4,880)
Recoveries credited to reserve	**1,333**	723	911
Net charge-offs	**(4,788)**	(4,145)	(3,969)
Balance, December 31	**$14,624**	$14,410	$13,952

During 2003, 2002 and 2001, $1,581,000, $2,168,000, and $2,116,000 of assets were acquired through foreclosure and transferred to other real estate owned.

In addition to non-performing loans reflected in the foregoing table, the Company has identified certain performing loans as impaired based upon management's evaluation of credit strength, projected ability to repay in accordance with the contractual terms of the loans and varying degrees of dependence on the sale of related collateral for liquidation of the loans. These loans were current under loan terms and were classified as performing at year-end 2003.

The following table presents the Company's investment in loans considered to be impaired and related information on those impaired loans:

	2003	2002	2001
	(Amounts in Thousands)		
Recorded investment in loans considered to be impaired	**$7,649**	$8,980	$5,129
Loans considered to be impaired that were on a non-accrual basis	**1,609**	1,238	1,229
Allowance for loan losses related to loans considered to be impaired	**2,422**	3,907	1,310
Average recorded investment in impaired loans	**7,798**	9,176	5,674
Total interest income recognized on impaired loans	**443**	512	255

Impaired loans include a relationship in the amount of $4.7 million which is secured by a hotel property which has suffered declines in levels of occupancy. The allowance for loan losses related to this loan was $1.5 million at December 31, 2003.

The Company has considered all impaired loans in the evaluation of the adequacy of the allowance for loan losses at December 31, 2003.

Note 7. Premises and Equipment

Premises and equipment are comprised of the following as of December 31:

	2003	2002
	(Amounts in Thousands)	
Land	**$ 9,845**	$ 7,648
Bank premises	**26,579**	24,317
Equipment	**20,118**	16,832
	56,542	48,797
Less: accumulated depreciation and amortization	**26,521**	23,719
Total	**$30,021**	$25,078

Note 8. Other Indebtedness

Other indebtedness includes structured term borrowings from the FHLB of $136.3 million and $100 million at December 31, 2003 and 2002, respectively, in the form of convertible and callable advances. The callable advances may be called (redeemed) at quarterly intervals after various lockout periods. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full, converted to another FHLB credit product, or converted to an adjustable rate advance. At December 31, 2003 and 2002, respectively, the Company also held non-callable term advances of $8.4 million and $10.0 million.

FCBNA is a member of the FHLB which provides credit in the form of short-term and long-term advances collateralized by various mortgage assets. At December 31, 2003, credit availability with the FHLB totaled approximately $355.3 million. Advances from the FHLB are secured by stock in the FHLB of Atlanta, qualifying first mortgage loans of $373 million, mortgage-backed securities, and certain other investment securities. The FHLB advances are subject to restrictions or penalties in the event of prepayment.

Other various debt obligations of the Company, excluding the borrowings of UFM mentioned below, approximated $30,000 at December 31, 2003 and $50,000 at December 31, 2002.

The following schedule details the outstanding FHLB advances, rates and corresponding final maturities at December 31, 2003.

	Advance	Rate	Maturity	Next Call Date
	(Amounts in Thousands)			
Callable advances:	$ 5,001	1.10%	03/10/06	03/10/04
	25,000	0.67%	06/30/06	06/30/04
	1,321	4.14%	05/02/07	05/02/05
	5,014	1.41%	09/27/07	03/29/04
	25,000	5.71%	03/17/10	03/17/04
	25,000	6.11%	05/05/10	02/05/04
	25,000	6.02%	05/05/10	02/05/04
	25,000	5.47%	10/04/10	01/05/04
	$136,336			
Noncallable advances:	$ 949	4.55%	11/23/05	N/A
	457	5.01%	12/11/06	N/A
	5,000	1.17%	01/30/07	N/A
	2,000	6.27%	09/02/08	N/A
	$ 8,406			

In addition to the amounts listed in the foregoing table, the Company issued $15.0 million Trust Preferred Securities in September 2003 at a variable rate indexed at the 3 Month LIBOR rate + 2.95%. The securities mature on October 8, 2033 and are continuously callable beginning October 8, 2008.

The Company's wholly owned mortgage subsidiary, United First Mortgage (''UFM''), maintains a warehouse line of credit used to fund mortgage loan inventory with a third party which was entered into in the third quarter of 2003. The maximum line available under this credit facility is $15 million; however, only $2.6 million was outstanding at December 31, 2003. This line matures August 10, 2004 and carries an interest rate of New York Prime, adjusting as the prime rate changes.

Note 9. Deposits

At December 31, 2003, the scheduled maturities of certificates of deposit are as follows:

	(Amounts in Thousands)
2004	$400,773
2005	103,446
2006	26,726
2007	38,779
2008 and thereafter	36,942
	$606,666

Time deposits, including certificates of deposit issued in denominations of $100,000 or more, amounted to $194.8 million and $176.8 million at December 31, 2003 and 2002, respectively. Interest expense on these certificates was $5.7 million, $6.1 million, and $6.7 million for 2003, 2002, and 2001, respectively.

At December 31, 2003, the scheduled maturities of certificates of deposit of $100,000 or more are as follows:

	(Amounts in Thousands)
Three Months or Less	$ 36,736
Over Three to Six Months	37,783
Over Six to Twelve Months	51,783
Over Twelve Months	68,500
Total	$194,802

Note 10. Income Taxes

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Income taxes are as follows:			
Tax on income exclusive of securities gains	**$ 9,886**	$10,205	$8,330
Tax on net securities (losses) gains	**479**	(156)	72
	$10,365	$10,049	$8,402

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Income tax provisions consists of:			
Current tax expense	**$ 9,987**	$ 9,056	$8,734
Deferred tax expense (benefit)	**578**	993	(332)
	$10,365	$10,049	$8,402

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting versus tax purposes. The tax effects of significant items comprising the Company's net deferred tax assets as of December 31, 2003 and 2002 are as follows:

	2003	2002
	(Amounts in Thousands)	
Deferred tax assets:		
Allowance for loan losses	**$5,736**	$5,644
Unrealized losses on assets	**303**	214
Deferred compensation	**1,077**	979
Deferred insurance premiums	**154**	222
Other	**919**	739
Total deferred tax assets	**8,189**	7,798
Deferred tax liabilities:		
Intangible assets	**2,127**	1,537
Fixed assets	**1,028**	701
Deferred loan fees	**652**	346
Unrealized gain on securities available for sale	**3,319**	4,507
Other	**1,080**	1,636
Total deferred tax liabilities	**8,206**	8,727
Net deferred tax (liabilities) assets	**$ (17)**	$ (929)

The reconciliation between the federal statutory tax rate and the effective income tax rate is as follows:

	Years Ended December 31,		
	2003	2002	2001
Tax at statutory rate	**35.00%**	35.00%	35.00%
(Reduction) increase resulting from:			
Tax-exempt interest on investment securities and loans	**(5.98)%**	(6.42)%	(7.31)%
State income taxes, net of federal benefit	**1.76%**	1.82%	2.55%
Amortization of goodwill	**—%**	—%	1.57%
Other, net	**(1.67)%**	(1.50)%	(1.30)%
Effective tax rate	**29.11%**	28.90%	30.51%

Note 11. Employee Benefits

Employee Stock Ownership and Savings Plan

The Company maintains an Employee Stock Ownership and Savings Plan (''KSOP''). Coverage under the plan is provided to all employees meeting minimum eligibility requirements.

Employer Stock Fund: Annual contributions to the stock portion of the plan are made at the discretion of the Board of Directors, and are allocated to plan participants on the basis of relative compensation. Substantially all plan assets are invested in common stock of the Company. Total expense recognized by the Company related to the Employer Stock Fund within the KSOP was $825,000, $675,000 and $948,000 in 2003, 2002 and 2001, respectively. The Company reports the contributions to the plan as a component of employee compensation and benefits. The 2003 contribution rate was 5.5% of eligible employee compensation.

Employee Savings Plan: The Company provides a 401(k) Savings feature within the KSOP that is available to substantially all employees meeting minimum eligibility requirements. The cost of Company

contributions under the Savings Plan component of the KSOP was $680,000, $563,000, and $216,000 in 2003, 2002 and 2001, respectively. The Company's matching contributions are at the discretion of the Board up to 100% of elective deferrals of no more than 6% of compensation. The Company matching rate was 100% for 2003, 100% for 2002, and 50% for 2001. The employee participants have various investment alternatives available in the 401(k) Savings feature, but Company securities are not permitted as an investment alternative.

Employee Welfare Plan

The Company provides various medical, dental, vision, life, accidental death and dismemberment and long-term disability insurance benefits to all full-time employees who elect coverage under this program (basic life, accidental death and dismemberment, and long-term disability coverage are automatic). The health plan is managed by a third party administrator (''TPA''). Monthly employer and employee contributions are made to a tax-exempt employer benefits trust, against which the TPA processes and pays claims. Stop loss insurance coverage limits the Company's funding requirements and risk of loss to $60,000 and $2.52 million for individual and aggregate claims, respectively. Total Company expenses under the plan were $2.0 million, $1.9 million, and $1.4 million in 2003, 2002 and 2001, respectively.

Deferred Compensation Plan

FCBNA has deferred compensation agreements with certain current and former officers providing for benefit payments over various periods commencing at retirement or death. The liability at December 31, 2003 and 2002 was approximately $601,000 and $700,000, respectively. The annual expenses associated with this plan were $42,000 for 2003 and $91,000 for both 2002 and 2001. The obligation is based upon the present value of the expected payments and estimated life expectancies of the individuals.

The Company maintains a life insurance contract on the life of one of the participants covered under this plan. Proceeds derived from death benefits are intended to provide reimbursement of plan benefits paid over the post employment lives of the participants. Premiums on the insurance contract are currently paid through policy dividends on the cash surrender values of $720,000 and $598,000 at December 31, 2003 and 2002, respectively.

Executive Retention Plan

The Company maintains an Executive Retention Plan for key members of senior management. This Plan provides for a benefit at normal retirement (age 62) targeted at 35% of final compensation projected at an assumed 3% salary progression rate. Benefits under the Plan become payable at age 62. Actual benefits payable under the Retention Plan are dependent on an indexed retirement benefit formula which accrues benefits equal to the aggregate after-tax income of associated life insurance contracts less the Company's tax-effected cost of funds for that plan year. Benefits under the Plan are dependent on the performance of the insurance contracts and are not guaranteed by the Company. Additionally, during 2001, the Company entered into a similar retirement plan arrangement as described below with non-employee board members of the Company.

The Company funded the contracts through the purchase of bank-owned life insurance, (''BOLI''), which is anticipated to fully fund the projected benefit payout after retirement. The total amount invested in BOLI for the Executive Retention Plan during 2000 and the corresponding cash surrender value at December 31, 2003 was $4.1 million and $6.1 million, respectively. The associated projected benefit obligation accrued as of year-end 2003 and 2002 was $1.4 million and $775,000, respectively, while the associated obligation expense incurred in connection with the Executive Plan was $170,000, $177,000 and $156,000 for 2003, 2002 and 2001, respectively. The income derived from policy appreciation was $234,000, $157,000 and $240,000 in 2003, 2002 and 2001, respectively.

In conjunction with the CommonWealth merger, the Company assumed the obligations of the CommonWealth BOLI plan and added assets of $1.4 million which is reflected in the growth of the BOLI assets, income and corresponding expense.

In connection with the Executive Retention Plan, the Company has also entered into Life Insurance Endorsement Method Split Dollar Agreements (the ''Agreements'') with the individuals covered under the Plan.

Under the Agreements, the Company shares 80% of death benefits (after recovery of cash surrender value) with the designated beneficiaries of the plan participants under life insurance contracts referenced in the Plan. The Company as owner of the policies retains a 20% interest in life proceeds and a 100% interest in the cash surrender value of the policies.

The Plan also contains provisions for change of control, as defined, which allow the participants to retain benefits, subject to certain conditions, under the Plan in the event of a change in control. Benefits under the Executive Plan, which begin to accrue with respect to years of service under the Plan, vest 25% after five years, 50% after ten years, 75% after 15 years and 5% per year thereafter, with vesting accelerated to 100% upon attainment of age 62.

Directors Supplemental Retirement Plan

In the fourth quarter of 2001, the Company established a Directors Supplemental Retirement Plan for its non-employee Directors. This Plan provides for a benefit upon retirement from service on the Board at specified ages depending upon length of service or death. Benefits under the Plan become payable at age 70, 75, and 78 depending upon the individual director's age and original date of election to the Board. Actual benefits payable under the Plan are dependent on an indexed retirement benefit formula that accrues benefits equal to the aggregate after-tax income of associated life insurance contracts less the Company's tax-effected cost of funds for that plan year. Benefits under the Plan are dependent on the performance of the insurance contracts and are not guaranteed by the Company.

In connection with the Directors Supplemental Retirement Plan, the Company has also entered into Life Insurance Endorsement Method Split Dollar Agreements (the ''Agreements'') with certain directors covered under the Plan. Under the Agreements, the Company shares 80% of death benefits (after recovery of cash surrender value) with the designated beneficiaries of the executives under life insurance contracts referenced in the Retention Plan. The Company, as owner of the policies, retains a 20% interest in life proceeds and a 100% interest in the cash surrender value of the policies. Because the Plan was designed to retain the future services of Board members, no benefits are payable under the Plan in the event of termination of service prior to retirement age as defined in the Plan document.

The Plan also contains provisions for change of control, as defined, which allow the Directors to retain benefits under the Plan in the event of a termination of service, other than for cause, during the 12 months prior to a change in control or anytime thereafter, unless the Director voluntarily terminates his service within 90 days following the change in control.

The Plan expenses associated with the Directors Supplemental Retirement Plan for 2003, 2002 and 2001 were $155,000, $217,000 and $32,000, respectively. The level of expense in 2001 is reflective of the fourth quarter implementation of the Plan.

Stock Options

In 1999, the Company instituted a Stock Option Plan to encourage and facilitate investment in the common stock of the Company by key executives and to assist in the long-term retention of service by those executives. The Plan covers key executives as determined by the Company's Board of Directors from time to time. Options under the Plan were granted in the form of non-statutory stock options with the aggregate number of shares of common stock available for grant under the Plan set at 332,750 (adjusted for 10% stock dividends paid in 2002 and again in 2003). The options granted under the Plan represent the rights to acquire the option shares with deemed grant dates of January 1 for each year beginning with the initial year granted and the following four anniversaries. All stock options granted pursuant to the Plan vest ratably on the first through the seventh anniversary dates of the deemed grant date. The option price of each stock option is equal to the fair market value (as defined by the Plan) of the Company's common stock on the date of each deemed grant during the five-year grant period. Vested stock options granted pursuant to the Plan are exercisable for a period of five years after the date of the grantee's retirement (provided retirement occurs at or after age 62), and at disability, or death. If employment is terminated other than by retirement, disability, or death, vested options must be exercised within

90 days after the effective date of termination. Any option not exercised within such period will be deemed cancelled.

In the fourth quarter of 2001, the Company also granted stock options to non-employee directors. The Director Option Plan was implemented to facilitate and encourage investment in the common stock of the Company by non-employee directors whose efforts, solely as directors, are expected to contribute to the Company's future growth and continued success. The options granted pursuant to the Plan expire at the earlier of 10 years from the date of grant or two years after the optionee ceases to serve as a director of the Company. Options not exercised within the appropriate time shall expire and be deemed cancelled. The Plan covers non-employee directors as determined by the Company's Board of Directors. Options under the Plan were granted in the form of non-statutory stock options with the aggregate number of shares of common stock available for grant under the Plan set at 108,900 shares (adjusted for the 10% stock dividends paid in 2002 and 2003).

In 2003, with the acquisition of CommonWealth, the Company acquired additional stock options of 120,155 shares (adjusted by the merger conversion factor of .9015 and the 10% stock dividend in 2003). These options were issued by CommonWealth in 12 grants beginning in 1994 and ending in 2002 and, following the merger, reflect adjusted exercise prices ranging from $4.75 to $17.40. These options were fully vested at the point of grant and are exercisable for up to ten years following the original grant date.

A summary of the Company's stock option activity, and related information for the years ended December 31 is as follows:

	2003		2001		2002	
	Option Shares	**Weighted-Average Exercise Price**	Option Shares	Weighted-Average Exercise Price	Option Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	**291,638**	**$19.25**	222,502	$16.95	92,866	$17.90
Granted	**75,186**	**29.15**	75,186	24.65	132,661	16.27
Acquired with CommonWealth	**120,155**	**—**	—	—	—	—
Exercised	**63,095**	**11.44**	6,050	21.74	—	—
Forfeited	**9,075**	**—**	—	—	3,025	13.93
Outstanding, end of year	**414,809**	**$19.01**	291,638	$19.25	222,502	$16.95
Exercisable at end of year	**105,460**	**$12.67**	48,400	$21.74	54,450	$21.74
Weighted-average fair value of options granted during the year	**$ 7.05**		$ 6.65		$ 4.80	

Additional information regarding stock options outstanding and exercisable at December 31, 2003 is provided in the following table:

Ranges of Exercise Prices($)	**Number of Options Outstanding**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (Years)**	**Number of Options Currently Exercisable**	**Weighted-Average Exercise Price of Options Currently Exercisable**
4.75 - 7.124	**16,672**	**$ 5.71**	**1.16**	**16,672**	**$ 5.71**
7.664 - 11.496	**53,054**	**8.81**	**1.16**	**53,054**	**8.81**
13.936 - 20.905	**165,636**	**16.17**	**11.93**	**594**	**16.89**
21.736 - 32.603	**179,447**	**25.89**	**10.13**	**35,140**	**21.74**
	414,809	**$19.01**	**9.34**	**105,460**	**$12.67**

Note 12. Litigation, Commitments and Contingencies

In the normal course of business, the Company is a defendant in various legal actions and asserted claims, most of which involve lending, collection and employment matters. While the Company and legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, they are of the belief that the resolution of these actions, singly or in the aggregate, should not have a material adverse affect on the financial condition, results of operations or cash flows of the Company.

In November, 2003 the Company was sued by two former employees of The CommonWealth Bank, alleging among other things, violation of employment law and breach of contract, stemming from their termination. The Company and counsel believe that the lawsuit, which seeks damages of more than $180,000 and punitive damages for each of the two former employees of The CommonWealth Bank is without merit, and intends to vigorously defend this matter.

The Company conducts mortgage banking operations through UFM. The majority of loans originated by UFM are sold to larger national investors on a service released basis. Loans are sold under loan sales agreements which contain various repurchase provisions. These repurchase provisions give rise to a contingent liability for loans which could subsequently be submitted to UFM for repurchase. The principal events which could result in a repurchase obligation are i.) the discovery of fraud or material inaccuracies in a sold loan file and ii.) a default on the first payment due after a loan is sold to the investor, coupled with a ninety day delinquency in the first year of the life of the loan. Other events and variations of these events could result in a loan repurchase under terms of other loan sales agreements. The volume of contingent loan repurchases, if any, is largely dependent on the quality of loan underwriting and systems employed by UFM for quality control in the production of mortgage loans. UFM may remarket these loans to alternate investors after repurchase and cure of the borrowers' defects. To date, loans submitted for repurchase have not been material and have not had a material adverse effect on the results of operations, financial condition or liquidity of UFM or the Company.

UFM also originates government guaranteed FHA and VA loans that are also sold to third party investors. The Department of Housing and Urban Development (''HUD'') periodically audits loan files of government guaranteed loans and may require UFM to execute indemnification agreements on loans which do not meet certain predefined underwriting guidelines or may require the repurchase of the underlying loan. To date, the number of required indemnification agreements, or loan repurchases have not been material and no subsequent losses have been incurred. Loan indemnifications and repurchases under the FHA and VA and VHDA loan programs have not had a material adverse effect on the financial condition, results of operations or cash flows of UFM or the Company.

UFM is subject to net worth requirements issued by HUD. Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions that, if undertaken, could have a direct material effect on UFM's operations. UFM was in compliance with HUD's minimum net worth requirement at December 31, 2003 and 2002. UFM's adjusted tangible net worth was $2.7 million at December 31, 2003, which exceeded the HUD requirement.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company

evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk at December 31, 2003 are commitments to extend credit (including availability of lines of credit) of $93.3 million and standby letters of credit and financial guarantees written of $10.7 million. In addition, at December 31, 2003, UFM had commitments to originate loans of $46.7 million. Of these commitments, the fallout/pullthrough model employed by UFM identified $30.8 million that are anticipated to close.

In September 2003, the Company issued, through FCBI Capital Trust, $15.0 million of trust preferred securities in a private placement. In connection with the issuance of the preferred securities, the Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the preferred securities to the holders thereof to the extent that FCBI Capital Trust has not made such payments or distributions and has the funds therefore: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution.

Note 13. Regulatory Capital Requirements and Restrictions

The primary source of funds for dividends paid by the Company is dividends received from FCBNA. Dividends paid by FCBNA are subject to restrictions by banking regulations. The most restrictive provision of the regulations requires approval by the Office of the Comptroller of the Currency if dividends declared in any year exceed the year's net income, as defined, plus retained net profit of the two preceding years. During 2004, subsidiary accumulated earnings available for distribution as dividends to the Company without prior approval are $36.7 million plus net income for the interim period through the date of dividend declaration.

The Company and FCBNA are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, which applies only to the Bank, the Bank must meet specific capital guidelines that involve quantitative measures of the entity's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The entity's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and FCBNA to maintain minimum amounts and ratios for total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2003, the Company and banking subsidiary met all capital adequacy requirements to which they are subject. As of December 31, 2003 and 2002, the most recent notifications from the Federal Reserve Board categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since those notifications that management believes have changed the institution's category.

At December 31, 2003, $15 million in trust preferred securities issued by FCBI Capital Trust were outstanding that are treated as Tier 1 capital for bank regulatory purposes. If FCBI's outstanding trust preferred securities at December 31, 2003 were not treated as Tier 1 capital at that date, FCBI's Tier 1 leverage capital ratio would have declined from 8.83% to 7.91%, its Tier 1 risk-based capital ratio would have declined from 13.26% to

11.88%, and its total risk-based capital ratio would have declined from 14.55% to 13.17% as of December 31, 2003. These reduced capital ratios would continue to meet the applicable ''well capitalized'' Federal Reserve capital requirements.

	December 31, 2003					
	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Amounts in Thousands)					
Total Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	**$158,386**	**14.55%**	**$87,102**	**8.00%**	**$ N/A**	**N/A**
First Community Bank, N. A.	**148,275**	**13.67%**	**86,792**	**8.00%**	**108,490**	**10.00%**
Tier 1 Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	**$144,331**	**13.26%**	**$43,551**	**4.00%**	**$ N/A**	**N/A**
First Community Bank, N. A.	**134,694**	**12.42%**	**43,396**	**4.00%**	**65,094**	**6.00%**
Tier 1 Capital to Average Assets (Leverage)						
First Community Bancshares, Inc.	**$144,331**	**8.83%**	**$65,388**	**4.00%**	**$ N/A**	**N/A**
First Community Bank, N. A.	**134,694**	**8.27%**	**65,131**	**4.00%**	**81,414**	**5.00%**

	December 31, 2002					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Amounts in Thousands)					
Total Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	$131,097	13.33%	$78,671	8.00%	$ N/A	N/A
First Community Bank, N. A.	119,434	12.20%	78,344	8.00%	97,930	10.00%
Tier 1 Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	$118,618	12.06%	$39,336	4.00%	$ N/A	N/A
First Community Bank, N. A.	107,164	10.94%	39,172	4.00%	58,758	6.00%
Tier 1 Capital to Average Assets (Leverage)						
First Community Bancshares, Inc.	$118,618	8.10%	$58,581	4.00%	$ N/A	N/A
First Community Bank, N. A.	107,164	7.35%	58,344	4.00%	72,930	5.00%

The tangible common equity ratio excludes goodwill and other intangible assets from both the numerator and denominator.

Tier 1 capital consists of total equity plus qualifying capital securities and minority interests, less unrealized gains and losses accumulated in other comprehensive income, certain intangible assets, and adjustments related to the valuation of mortgage servicing assets and certain equity investments in non-financial companies (principal investments).

Total risk-based capital is comprised of Tier 1 capital plus qualifying subordinated debt and allowance for loan losses and a portion of unrealized gains on certain equity securities.

Both the Tier 1 and the total risk-based capital ratios are computed by dividing the respective capital amounts by risk-weighted assets, as defined.

The leverage ratio reflects Tier 1 capital divided by average total assets for the period. Average assets used in the calculation exclude certain intangible and mortgage servicing assets.

Note 14. Other Operating Expenses

Included in other operating expenses are certain costs, the total of which exceeds one percent of combined interest income and non-interest income. Following are such costs for the years indicated:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Advertising and public relations	**$1,325**	$1,347	$1,223
Other service fees	**$1,629**	$1,547	$1,261
Telephone and data communications	**$1,343**	$1,207	$ *

* Cost did not exceed the one percent requirement for the reported period.

Note 15. Leases

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2003:

Year ended December 31:	(Amounts in Thousands)
2004	$ 982
2005	874
2006	696
2007	627
2008	529
Later Years	294
Total minimum payments required:	$4,002

Note 16. Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price if one exists.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments presented below. The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are

subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Amounts in Thousands)			
Assets:				
Cash and cash equivalents	**$ 61,552**	**$ 61,552**	$124,585	$124,585
Securities available for sale	**444,491**	**444,491**	300,885	300,885
Securities held to maturity	**38,020**	**40,060**	41,014	43,342
Derivative financial instruments	**83**	**83**	1,677	1,677
Loans held for sale	**18,152**	**18,195**	66,364	67,503
Loans held for investment	**1,011,567**	**1,067,854**	913,211	933,691
Interest receivable	**8,345**	**8,345**	7,897	7,897
Liabilities:				
Demand deposits	**194,127**	**194,127**	165,557	165,557
Interest-bearing demand deposits	**234,458**	**234,458**	200,296	200,296
Savings deposits	**190,366**	**190,366**	180,786	180,786
Time deposits	**606,666**	**605,168**	593,088	604,313
Federal funds purchased	**—**	**—**	—	—
Securities sold under agreements to repurchase	**97,651**	**97,651**	91,877	92,112
Interest, taxes and other obligations	**12,037**	**12,037**	15,940	15,940
Other indebtedness	**162,387**	**171,705**	124,357	141,496

Financial Instruments with Book Value Equal to Fair Value

The book values of cash and due from banks, federal funds sold and purchased, interest receivable, and interest, taxes and other liabilities are considered to be equal to fair value as a result of the short-term nature of these items.

Securities Available for Sale

For securities available for sale, fair value is based on current market quotations, where available. If quoted market prices are not available, fair value has been based on the quoted price of similar instruments.

Securities Held to Maturity

For investment securities, fair value has been based on current market quotations, where available. If quoted market prices are not available, fair value has been based on the quoted price of similar instruments.

Derivative Financial Instruments

Derivative financial instruments are recorded at estimated fair value based upon current market pricing for similar instruments.

Loans

The estimated value of loans held for investment is measured based upon discounted future cash flows and using the current rates for similar loans. Loans held for sale are recorded at lower of cost or estimated fair value. The fair value of loans held for sale is determined based upon the market sales price of similar loans.

Deposits and Securities Sold Under Agreements to Repurchase

Deposits without a stated maturity, including demand, interest-bearing demand, and savings accounts, are reported at their carrying value in accordance with FAS No. 107. No value has been assigned to the franchise value of these deposits. For other types of deposits with fixed maturities, fair value has been estimated by discounting future cash flows based on interest rates currently being offered on deposits with similar characteristics and maturities.

Other Indebtedness

Fair value has been estimated based on interest rates currently available to the Company for borrowings with similar characteristics and maturities.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees

The amount of off-balance sheet commitments to extend credit, standby letters of credit, and financial guarantees is considered equal to fair value. Because of the uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value that differs from the given value of the commitment.

Note 17. Parent Company Financial Information

Condensed financial information related to First Community Bancshares, Inc. as of December 31, 2003 and 2002, and for each of the years ended December 31, 2003, 2002 and 2001 is as follows:

Condensed Balance Sheets

	December 31,	
	2003	2002
	(Amounts in Thousands)	
ASSETS		
Cash	**$ 4,395**	$ 6,129
Investment in subsidiary	**179,776**	140,767
Other assets	**7,067**	6,220
Total assets	**$191,238**	$153,116
LIABILITIES		
Other liabilities	**$ 739**	$ 654
Long-term debt	**15,464**	—
STOCKHOLDERS' EQUITY		
Common stock	**11,442**	9,957
Additional paid-in capital	**108,128**	58,642
Retained earnings	**56,894**	79,084
Treasury stock	**(6,407)**	(1,982)
Accumulated other comprehensive income	**4,978**	6,761
Total stockholders' equity	**175,035**	152,462
Total liabilities and stockholders' equity	**$191,238**	$153,116

Condensed Statements of Income

	December 31,		
	2003	2002	2001
	(Amounts in Thousands, Except Per Share Data)		
Cash dividends received from subsidiary bank	**$11,900**	$11,500	$ 8,500
Other income	**1,257**	650	331
Operating expense	**(790)**	(759)	(552)
	12,367	11,391	8,279
Income tax (expense) benefit	**(5)**	311	72
Equity in undistributed earnings of subsidiary	**12,876**	13,017	10,783
Net income	**$25,238**	$24,719	$19,134
Basic earnings per share	**$ 2.27**	$ 2.26	$ 1.75
Diluted earnings per share	**$ 2.25**	$ 2.25	$ 1.75

Condensed Statements of Cash Flows

	Years Ending December 31,		
	2003	2002	2001
	(Amounts in Thousands)		
Cash flows from operating activities:			
Net income	**$ 25,238**	$ 24,719	$ 19,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	**(12,876)**	(13,017)	(10,783)
(Decrease) increase in other assets	**849**	(138)	85
Gain on sale of assets	**(999)**	(375)	(9)
Increase in other liabilities	**87**	1,169	621
Other, net	**—**	185	—
Net cash provided by operating activities	**12,299**	12,543	9,048
Cash flows from investing activities:			
Purchase of securities available for sale	**(323)**	(1,671)	(2,855)
Payments for investments in and advances to shareholders	**(15,000)**	—	—
Proceeds from sale of securities available for sale	**1,845**	1,954	586
Net cash (used in) provided by investing activities	**(13,478)**	283	(2,269)
Cash flows from financing activities:			
Repayment of long-term debt	**—**	(100)	—
Net Proceeds from debt related to the issuance of Trust Preferred Securities	**14,560**	—	—
Issuance of common stock	**709**	—	—
Acquisition of treasury stock	**(4,977)**	(2,491)	(599)
Dividends paid	**(10,847)**	(9,926)	(8,875)
Net cash (used in) provided by financing activities	**(555)**	(12,517)	(9,474)
Net (decrease) increase in cash and cash equivalents	**(1,734)**	309	(2,695)
Cash and cash equivalents at beginning of year	**6,129**	5,820	8,515
Cash and cash equivalents at end of year	**$ 4,395**	$ 6,129	$ 5,820

Note 18. Segment Information

The Company operates two business segments: community banking and mortgage banking. These segments are primarily identified by the products or services offered and the channels through which they are offered. The community banking segment consists of the Company's full-service bank which offers customers traditional banking products and services through various delivery channels. The mortgage banking segment consists of mortgage brokerage facilities that originate, acquire, and sell mortgage products. The accounting policies for each

of the business segments are the same as those of the Company described in Note 1. Information for each of the segments is included below:

December 31, 2003:

	Community Banking	Mortgage Banking	Parent	Eliminations	Total
	(Amounts in Thousands)				
Net interest income	**$ 64,258**	**$ 422**	**$ 65**	**$ (79)**	**$ 64,666**
Provision for loan losses	**3,419**	**—**	**—**	**—**	**3,419**
Net interest income after provision for loan losses	**60,839**	**422**	**65**	**(79)**	**61,247**
Other income	**13,779**	**7,165**	**999**	**(236)**	**21,707**
Other expenses	**37,308**	**9,761**	**597**	**(315)**	**47,351**
Income (loss) before income taxes	**37,310**	**(2,174)**	**467**	**—**	**35,603**
Income tax expense (benefit)	**11,053**	**(693)**	**5**	**—**	**10,365**
Net income	**$ 26,257**	**$(1,481)**	**$ 462**	**$ —**	**$ 25,238**
Average assets	**$1,610,144**	**$49,780**	**$170,597**	**$(213,369)**	**$1,617,152**

December 31, 2002:

	Community Banking	Mortgage Banking	Parent	Eliminations	Total
	(Amounts in Thousands)				
Net interest income	$ 59,998	$ 915	$ 268	$ 15	$ 61,196
Provision for loan losses	4,208	—	—	—	4,208
Net interest income after provision for loan losses	55,790	915	268	15	56,988
Other income	10,075	9,435	382	157	20,049
Other expenses	31,786	9,552	759	172	42,269
Income (loss) before income taxes	34,079	798	(109)	—	34,768
Income tax expense (benefit)	10,051	309	(311)	—	10,049
Net income	$ 24,028	$ 489	$ 202	$ —	$ 24,719
Average assets	$1,467,969	$62,457	$143,356	$(201,538)	$1,472,244

December 31, 2001:

	Community Banking	Mortgage Banking	Parent	Eliminations	Total
	(Amounts in Thousands)				
Net interest income	$ 49,379	$ 462	$ 315	$ 264	$ 50,420
Provision for loan losses	5,134	—	—	—	5,134
Net interest income after provision for loan losses	44,245	462	315	264	45,286
Other income	10,839	9,582	16	(162)	20,275
Other expenses	29,285	8,086	552	102	38,025
Income (loss) before income taxes	25,799	1,958	(221)	—	27,536
Income tax expense (benefit)	7,805	669	(72)	—	8,402
Net income	$ 17,994	$ 1,289	$ (149)	$ —	$ 19,134
Average assets	$1,365,164	$45,271	$128,732	$(252,853)	$1,286,314

Note 19. Supplemental Financial Data (Unaudited)

Quarterly earnings for the years ended December 31, 2003, 2002 and 2001 are as follows:

First Community Bancshares, Inc.
Quarterly Earnings Summary

	2003			
	March 31	**June 30**	**Sept 30**	**Dec 31**
	(Amounts in Thousands, Except Per Share Data)			
Interest income	**$22,538**	**$22,813**	**$24,146**	**$23,543**
Interest expense	**7,358**	**7,226**	**7,114**	**6,676**
Net interest income	**15,180**	**15,587**	**17,032**	**16,867**
Provision for loan losses	**589**	**1,308**	**782**	**740**
Net interest income after provision for loan losses	**14,591**	**14,279**	**16,250**	**16,127**
Other income	**6,011**	**6,801**	**4,047**	**3,650**
Securities gains	**20**	**133**	**1,038**	**7**
Other expenses	**11,131**	**11,414**	**12,574**	**12,232**
Income before income taxes	**9,491**	**9,799**	**8,761**	**7,552**
Income taxes	**2,743**	**2,832**	**2,532**	**2,258**
Net income	**6,748**	**6,967**	**6,229**	**$ 5,294**
Per share: Basic earnings	**$ 0.62**	**$ 0.63**	**$ 0.55**	**$ 0.47**
Diluted earnings	**$ 0.62**	**$ 0.63**	**$ 0.55**	**$ 0.46**
Dividends	**$ 0.24**	**$ 0.24**	**$ 0.25**	**$ 0.25**
Weighted average basic shares outstanding	**10,857**	**10,970**	**11,262**	**11,244**
Weighted average diluted shares outstanding	**10,913**	**11,085**	**11,384**	**11,362**

	2002			
	March 31	June 30	Sept 30	Dec 31
	(Amounts in Thousands, Except Per Share Data)			
Interest income	$24,043	$24,179	$24,451	$23,531
Interest expense	9,570	9,007	8,440	7,991
Net interest income	14,473	15,172	16,011	15,540
Provision for loan losses	937	1,022	1,302	947
Net interest income after provision for loan losses	13,536	14,150	14,709	14,593
Other income	5,677	4,955	4,975	4,833
Securities gains (losses)	177	9	22	(599)
Other expenses	10,609	10,446	10,251	10,963
Income before income taxes	8,781	8,668	9,455	7,864
Income taxes	2,464	2,630	2,869	2,086
Net income	6,317	6,038	6,586	$ 5,778
Per share: Basic earnings	$ 0.58	$ 0.55	$ 0.60	$ 0.53
Diluted earnings	$ 0.58	$ 0.55	$ 0.60	$ 0.52
Dividends	$ 0.23	$ 0.23	$ 0.23	$ 0.23
Weighted average basic shares outstanding	10,926	10,940	10,921	10,882
Weighted average diluted shares outstanding	10,976	10,993	10,976	10,940

	2001			
	March 31	June 30	Sept 30	Dec 31
	(Amounts in Thousands, Except Per Share Data)			
Interest income	$22,901	$23,135	$23,390	$23,403
Interest expense	10,986	10,882	10,580	9,961
Net interest income	11,915	12,253	12,810	13,442
Provision for loan losses	747	985	1,282	2,120
Net interest income after provision for loan losses	11,168	11,268	11,528	11,322
Other income	4,167	5,010	5,333	5,584
Securities gains (losses)	51	(7)	153	(16)
Other expenses	8,953	9,628	9,703	9,741
Income before income taxes	6,433	6,643	7,311	7,149
Income taxes	1,977	2,034	2,311	2,080
Net income as reported	4,456	4,609	5,000	5,069
FAS 142 & 147 goodwill amortization	458	464	468	485
Adjusted net income	$ 4,914	$ 5,073	$ 5,468	$ 5,554
Per share: Basic and diluted earnings	$ 0.41	$ 0.42	$ 0.45	$ 0.46
Basic & diluted earnings per share adjusted for FAS 142 & 147	$ 0.45	$ 0.46	$ 0.50	$ 0.51
Dividends	$ 0.19	$ 0.19	$ 0.19	$ 0.24
Weighted average basic shares outstanding	10,940	10,943	10,938	10,934
Weighted average diluted shares outstanding	10,947	10,964	11,003	10,991

* Goodwill amortization on branch acquisitions ceased October 1, 2002 in accordance with FAS 147. Goodwill amortization on all other purchase business combinations ceased on January 1, 2002. The effect of the application of the non-amortization provisions of FAS Statements 142 and 147 on net income and earnings per share for 2001 is presented above.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of First Community Bancshares, Inc.

We have audited the accompanying consolidated balance sheets of First Community Bancshares, Inc. and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, cash flow and changes in stockholders' equity for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial position of First Community Bancshares, Inc. and subsidiary at December 31, 2003 and 2002, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill as required by Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets, and Statement No. 147, Acquisitions of Certain Financial Institutions.

/s/ Ernst & Young, LLP

Charleston, West Virginia
March 9, 2004

REPORT OF MANAGEMENT'S RESPONSIBILITIES

The management of First Community Bancshares, Inc. is responsible for the integrity of its financial statements and their preparation in accordance with accounting principles generally accepted in the United States. To fulfill this responsibility requires the maintenance of a sound accounting system supported by strong internal controls. The Company believes it has a high level of internal control which is maintained by the recruitment and training of qualified personnel, appropriate divisions of responsibility, the development and communication of accounting and other procedures, and comprehensive internal audits.

Our independent auditors, Ernst & Young LLP, are engaged to audit, and render an opinion on, the fairness of our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our independent auditors obtain an understanding of our internal accounting control systems, review selected transactions and carry out other auditing procedures before expressing their opinion on our consolidated financial statements.

The Board of Directors has appointed an Audit Committee, composed of outside directors, that periodically meets with the independent auditors, bank examiners, management and internal auditors to review the work of each. The independent auditors, bank examiners and the Company's internal auditors have free access to meet with the Audit Committee without management's presence.

/s/ John M. Mendez

John M. Mendez
President & Chief Executive Officer

/s/ Kenneth P. Mulkey

Kenneth P. Mulkey
Controller

/s/ Robert L. Schumacher

Robert L. Schumacher
Chief Financial Officer

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (''Exchange Act'') Rule 13a-15(b). Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated

subsidiaries) required to be included in the Company's periodic SEC filings. There have not been any changes in the Company's internal controls over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The required information concerning directors has been omitted in accordance with General Instruction G. Such information regarding directors appears on pages 2, 3, and 4 of the Proxy Statement relating to the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

A portion of the information relating to compliance with Section 16(a) of the Exchange Act has been omitted in accordance with General Instruction G. Such information appears on pages 6 of the Proxy Statement relating to the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the Company's Code of Ethics is available on the Company's website at http:/www.fcbinc.com and is also filed as Exhibit 14.1 to this Annual Report on Form 10K. Since its adoption, there have been no amendments to or waivers of the code of ethics related to any of the above officers.

A portion of the information relating to Audit Committee Financial Expert has been omitted in accordance with General Instruction G. Such information regarding executive officers appears on page 6 of the Proxy Statement relating to the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

BOARD OF DIRECTORS, FIRST COMMUNITY BANCSHARES, INC.

Harold V. Groome, Jr.
Chairman, Groome Transportation, Inc.; Chairman Groome Transportation of Georgia, Inc.

Allen T. Hamner
Professor of Chemistry, West Virginia Wesleyan College; Member Executive Committee and Audit Committee; Member Compensation Committee; Member Nominating Committee

B. W. Harvey
President, Highlands Real Estate Management, Inc.; Member Executive Committee and Audit Committee; Member Nominating Committee

I. Norris Kantor
Partner, Katz, Kantor & Perkins, Attorneys-at-Law

John M. Mendez
President and Chief Executive Officer, First Community Bancshares, Inc.; Executive Vice President, First Community Bank, N. A.; Member Executive Committee

A. A. Modena
Past Executive Vice President and Secretary, First Community Bancshares, Inc.; Past President & Chief Executive Officer, The Flat Top National Bank of Bluefield; Member Executive Committee; Member Compensation Committee; Chairman, Nominating Committee

Robert E. Perkinson, Jr.
Past Vice President-Operations, MAPCO Coal, Inc. - Virginia Region; Chairman, Audit Committee

William P. Stafford
President, Princeton Machinery Service, Inc.; Chairman, First Community Bancshares, Inc.; Member Executive Committee

William P. Stafford, II
Attorney-at-Law, Brewster, Morhous, Cameron, Mullins, Caruth, Moore, Kersey & Stafford, PLLC; Member Executive Committee; Chairman, Compensation Committee

OFFICERS, FIRST COMMUNITY BANCSHARES, INC.

John M. Mendez
President and Chief Executive Officer

Robert L. Schumacher
Chief Financial Officer

Robert L. Buzzo
Vice President and Secretary

E. Stephen Lilly
Chief Operating Officer

Kenneth P. Mulkey
Controller

BOARD OF DIRECTORS, FIRST COMMUNITY BANK, N. A.

Dr. James P. Bailey
Veterinarian, Veterinary Associates, Inc.
Chairman Emeritus, First Community Bank, N. A.

W. C. Blankenship, Jr.
Agent, State Farm Insurance

D. L. Bowling, Jr.
President, True Energy, Inc.

Juanita G. Bryan
Homemaker

Robert L. Buzzo
Vice President and Secretary, First Community Bancshares, Inc.
President, First Community Bank, N. A.

Sam Clark
Agent, State Farm Insurance
Owner, Country Junction Company, Inc.

C. William Davis
Attorney-at-Law, Richardson & Davis

Harold V. Groome, Jr.
Chairman, Groome Transportation, Inc.; Chairman, Groome Transportation of Georgia, Inc.

Franklin P. Hall
Businessman; Senior Partner, Hall & Family Law Firm

Allen T. Hamner, Ph.D.
Professor of Chemistry, West Virginia Wesleyan College

B. W. Harvey
President, Highlands Real Estate Management, Inc.; Chairman, First Community Bank, N. A.

I. Norris Kantor
Partner, Katz, Kantor & Perkins, Attorneys-at-Law

John M. Mendez
President and Chief Executive Officer, First Community Bancshares, Inc.; Executive Vice President, First Community Bank, N. A.

A. A. Modena
Past Executive Vice President and Secretary, First Community Bancshares, Inc.; Past President and Chief Executive Officer, The Flat Top National Bank of Bluefield

Robert E. Perkinson, Jr.
Past Vice President-Operations, MAPCO Coal, Inc. — Virginia Region

Clyde B. Ratliff
President, Gasco Drilling, Inc.

Richard G. Rundle
Attorney-at-Law, Rundle and Rundle, LC

William P. Stafford
President, Princeton Machinery Service, Inc.

William P. Stafford, II
Attorney at Law, Brewster, Morhous, Cameron, Mullins, Caruth, Moore, Kersey & Stafford, PLLC

Dale F. Woody
President, Woody Lumber Company

Item 11. *Executive Compensation*

The required information concerning management remuneration has been omitted in accordance with General Instruction G. Such information appearing on pages 10 through 14 of the Proxy Statement relating to the 2004 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The required information concerning security ownership of certain beneficial owners and management has been omitted in accordance with General Instruction G. Such information appearing on pages 7 and 8 of the Proxy Statement relating to the 2004 Annual Meeting of Stockholders is incorporated herein by reference.

The following table presents information for all equity compensation plans with individual compensation arrangements (whether with employees or non-employees such as directors), in effect as of December 31, 2003.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	—	$ —	—
Equity compensation plans not approved by security holders	414,809	$19.01	77,851
Total	414,809		77,851

Item 13. *Certain Relationships and Related Transactions*

The required information concerning certain relationships and related transactions has been omitted in accordance with General Instruction G. Such information appears on page 6 in the Proxy Statement relating to the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The required information concerning principal accountant fees and services has been omitted in accordance with General Instruction G. Such information appears on page 20 in the Proxy Statement relating to the 2004 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a)(1) *Financial Statements*

The Consolidated Financial Statements of First Community Bancshares, Inc. and subsidiaries together with the independent Auditors' Report dated March 9, 2004 are incorporated by reference to Item 8 hereof.

(2) Financial Statement Schedules

All applicable financial statement schedules required by Regulation S-X are included in the Notes to the 2003 Consolidated Financial Statements and are incorporated by reference to Item 8 herein.

(b) Reports on Form 8-K filed during the last quarter of the period covered by this report were as follows:

On October 23, 2003 a report on Form 8-K was filed in conjunction with announcement of the Company's third quarter operating results.

On November 18, 2003 a report on Form 8-K was filed announcing the Company's fourth quarter 2003 cash dividend.

On December 31, 2003 a report on Form 8-K was filed announcing that the Company entered into an Agreement and Plan of Merger dated December 31, 2003 with PCB Bancorp, Inc., a Tennessee chartered bank holding company.

(c) *Exhibits*

Exhibit No.	Exhibit
2.1	— Agreement and Plan of Merger dated as of January 27, 2003, and amended as of February 25, 2003, among First Community Bancshares, Inc., First Community Bank, National Association, and The CommonWealth Bank.(1)
3(i)	— Articles of Incorporation of First Community Bancshares, Inc., as amended.(2)
3(ii)	— Bylaws of First Community Bancshares, Inc., as amended.(2)
4.1	— Specimen stock certificate of First Community Bancshares, Inc.(7)
4.2	— Indenture Agreement dated September 25, 2003.
4.3	— Amended and Restated Declaration of Trust of FCBI Capital Trust dated September 25, 2003.
4.4	— Preferred Securities Guarantee Agreement dated September 25, 2003.
10.1	— First Community Bancshares, Inc. 1999 Stock Option Plan.(2)(3)
10.2	— First Community Bancshares, Inc. 2001 Non-Qualified Directors Stock Option Plan.(4)
10.3	— Employment Agreement dated January 1, 2000 and amended October 17, 2000, between First Community Bancshares, Inc. and John M. Mendez.(2)(5)
10.4	— First Community Bancshares, Inc. 2000 Executive Retention Plan.(3)
10.5	— First Community Bancshares, Inc. Split Dollar Plan and Agreement.(3)
10.6	— First Community Bancshares, Inc. 2001 Directors Supplemental Retirement Plan.(2)
10.7	— First Community Bancshares, Inc. Wrap Plan.(7)
10.8	— Employment Agreement between First Community Bancshares, Inc. and J. E. Causey Davis.(8)
10.9	— Agreement and Plan of Merger dated as of December 31, 2003 among First Community Bancshares, Inc., First Community Bank, National Association, and PBC Bancorp.(9)
10.10*	— Form of Indemnification Agreement between First Community Bancshares, its Directors and Certain Executive Officers.(10)
10.11*	— Form of Indemnification Agreement between First Community Bank, N. A, its Directors and Certain Executive Officers.(10)
11.0	— Statement regarding computation of earnings per share.(6)
12.1*	— Computation of Ratios.
14.1*	— Code of Ethics.
21.1	— Subsidiaries of Registrant-Reference is made to "Item 1. Business" for the required information.
23.1	— Consent of Independent Accountants.
31.1*	— Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	— Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	— Certification of Chief Executive and Chief Financial Officer Section 1350.

* Furnished herewith.

(1) Incorporated by reference to the corresponding exhibit previously filed as an exhibit to the Form 8-K filed with the Commission on January 28, 2003 and February 26, 2003.

(2) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2002 filed on August 14, 2002.

(3) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 1999 filed on March 30, 2000 as amended April 13, 2000.

(4) The options agreements entered into pursuant to the 1999 Stock Option Plan and the 2001 Non-Qualified Directors Stock Option Plan are incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2002 filed on August 14, 2002.

(5) First Community Bancshares, Inc. has entered into substantially identical agreements with Messrs. Buzzo and Lilly, with the only differences being with respect to titles, salary and the use of a vehicle.

(6) Incorporated by reference from Footnote 1 of the Notes to Consolidated Financial Statements included herein.

(7) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2002 filed on March 25, 2003 as amended on March 31, 2003.

(8) Incorporated by reference from S-4 Registration Statement filed on March 28, 2003.

(9) Incorporated by reference to the corresponding exhibit previously filed as an exhibit to the Form 8-K filed with the Commission on December 31, 2003.

(10) Form of indemnification agreement entered into by the Corporation and by First Community Bank N. A. with their respective directors and certain officers of each including, for the registrant and Bank: John M. Mendez, Robert L. Schumacher, Robert L. Buzzo, Kenneth P. Mulkey, E. Stephen Lilly and at the Bank level: Samuel L. Elmore.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BY /s/ JOHN M. MENDEZ

John M. Mendez
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY /s/ ROBERT L. SCHUMACHER

Robert L. Schumacher
Principal Accounting Officer

Signature	Title	Date
/s/ HAROLD V. GROOME, JR. (Harold V. Groome, Jr.)	Director	03/15/2004
/s/ ALLEN T. HAMNER (Allen T. Hamner)	Director	03/15/2004
/s/ B. W. HARVEY (B. W. Harvey)	Director	03/15/2004
/s/ I. NORRIS KANTOR (I. Norris Kantor)	Director	03/15/2004
/s/ JOHN M. MENDEZ (John M. Mendez)	President, Chief Executive Officer and Director (Principal Executive Officer)	03/15/2004
/s/ A. A. MODENA (A. A. Modena)	Director	03/15/2004
/s/ ROBERT E. PERKINSON, JR. (Robert E. Perkinson, Jr.)	Director	03/15/2004
/s/ WILLIAM P. STAFFORD (William P. Stafford)	Chairman of the Board of Directors	03/15/2004
/s/ WILLIAM P. STAFFORD, II (William P. Stafford, II)	Director	03/15/2004