

FCBC 10-K 12/31/1998

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Section 1: 10-K (FIRST COMMUNITY BANCSHARES, INC.)

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

Form 10-K

[X] Annual Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of
1934 (Fee Required)

For the Fiscal Year Ended December 31, 1998
or

[] Transition Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of
1934 (Fee Required)

For the transition period from _____
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) (IRS Employer Identification No.)
of incorporation or organization

1001 Mercer Street, Princeton, West Virginia 24740-5909
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (304) 487-9000

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 X 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.

State the aggregate market value of the voting stock held by non-affiliates of
the Registrant as of March 19, 1999.

\$153,896,699 based on the 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 19, 1999.

Common Stock, \$1 par value- 7,019,123
DOCUMENTS INCORPORATED BY REFERENCE

Portions of the First Community Bancshares, Inc. 1998 Annual Report to Security
Holders are incorporated by reference in Part I and II hereof.

Portions of the First Community Bancshares, Inc. 1998 Annual Proxy Statement are
incorporated by reference in Part III hereof.

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Form 10-K Information

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1998 Form 10-K Annual Report

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PART I
ITEM 1. BUSINESS

First Community Bancshares, Inc., formerly FCFT, Inc., (Registrant) was

incorporated in November 1989, under the laws of the State of Delaware to serve as the holding company for and to facilitate the merger of First Community Bancshares, Inc. (FCBI) and Flat Top Bankshares, Inc. (Flat Top). FCPT, Inc. was a Delaware bank holding company with one wholly-owned subsidiary, First Community Bank, Inc. (FCB), a state-chartered West Virginia bank headquartered in Princeton, West Virginia. Flat Top was a West Virginia bank holding company headquartered in Bluefield, West Virginia, with two wholly-owned subsidiaries, The Flat Top National Bank of Bluefield (FTNB), a National Association, and Peoples Bank of Bluewell (PBB), a state-chartered West Virginia bank. After the mergers, FCPT, Inc. operated as the surviving holding company for the three constituent banks described above as well as First Federal Savings Bank (FFSB) which was acquired in November 1990. On December 30, 1994, FFSB was merged into FCB. Subsequently on January 4, 1995, FTNB and PBB were also merged into FCB. On September 30, 1997 the Company, formerly known as FCPT, Inc., merged with and into First Community Bancshares, Inc. (FCBI), a Nevada corporation, formed to facilitate the change of the Company's state of domicile from Delaware to Nevada and to effect the change in name.

On December 29, 1995, FCBI reorganized its existing bank subsidiary, First Community Bank, Inc., Princeton, West Virginia, by splitting it into two separate banks. This was accomplished by chartering a second, affiliated, Federal Deposit Insurance Corporation (FDIC) insured state commercial bank formed through the acquisition of assets and assumption of the liabilities of six of First Community Bank, Inc.'s operating divisions and branches located within Mercer County, West Virginia. This new bank, First Community Bank of Mercer County, Inc., headquartered in Princeton, West Virginia, consists of six divisions with offices in Princeton, Bluefield, and Bluewell, as well as the Credit Card Division, Trust Division, and Corporate/Administrative Division. The main office of the reorganized First Community Bank, Inc., was relocated to Buckhannon, West Virginia.

At the close of business on July 3, 1996, FCBI acquired Citizens Bank of Tazewell (Citizens), headquartered in Tazewell, Virginia. Pursuant to the Agreement and Plan of merger, FCBI exchanged 3.51 shares of its common stock for each share of Citizens's common stock. Accordingly, 263,159 shares of FCPT, Inc. common stock were issued to holders of Citizens common stock. The merger was accounted for under the pooling of interests method. Accordingly, all financial reporting periods presented have been restated to properly reflect this business combination. Subsequent to the merger, Citizens operates as a wholly owned subsidiary of FCBI. On June 2, 1997, the corporate name of Citizens was changed to First Community Bank of Southwest Virginia, Inc. (FCB SWV, Inc.).

At the close of business on September 26, 1996, First Community Bank, Inc. acquired the Grafton and Rowlesburg, West Virginia branches of Huntington National Bank West Virginia. The acquisition of these branches added approximately \$21 million in deposits. The intangible value of this transaction totaled approximately \$1 million that is being amortized over a 15-year period. This acquisition was accounted for under the purchase method of accounting. Accordingly, the consolidated results in periods after September 26, 1996 include the operations of the Grafton and Rowlesburg branches only from the date of acquisition.

On April 9, 1997, FCBI acquired 100% of the common stock of Blue Ridge Bank (Blue Ridge), headquartered in Sparta, North Carolina. Blue Ridge, a \$105 million state-chartered bank, with offices located in Sparta, Elkin, Hays and Taylorsville, North Carolina. Pursuant to the Agreement and Plan of merger, FCBI exchanged cash of \$19.50 for each of Blue Ridge's 1,212,148 common shares. In conjunction with the acquisition, Blue Ridge cancelled outstanding stock options through the payment of \$727,948 representing the difference between \$19.50 and the respective option price. Total consideration including the payment for cancellation of the options was \$24.7 million and resulted in an intangible asset of approximately \$13.2 million, which is being amortized over a 15-year period. The acquisition was partially funded with loan proceeds of \$11.5 million that the Company borrowed from an outside source. The loan agreement has certain covenants that may restrict the payment of dividends to stockholders in the event of default along with other customary borrowing provisions. The acquisition was accounted for under the purchase method of accounting. Accordingly, results of operations of Blue Ridge are included in consolidated results of FCBI from the date of acquisition. Subsequent to the merger, Blue Ridge operates as a wholly owned subsidiary of FCBI.

First Community Bank of Southwest Virginia, the Virginia subsidiary of First Community Bancshares, Inc., opened a de novo branch in Wytheville, Virginia, located at 910 E. Main Street on August 1, 1997.

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In September 1997, FCB-SWV, Inc. acquired three branches from First Virginia Banks and Premier Bankshares. The branches located in Fort Chiswell, Pound and Clintwood, Virginia had total deposits of \$43,864,000 at the date of the branch acquisition. The intangible value of this transaction was approximately \$4.6 million that is being amortized over a 15-year period.

Currently, the Registrant is a multi-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 subsidiaries 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 subsidiaries' banking operations.

The Registrant currently derives substantially all of its revenues from dividends paid by the subsidiary banks. Dividend payments by the banks 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 Supervision and Regulation of this item.

First Community Bank of Mercer County, Inc.

First Community Bank of Mercer County, Inc. (FCB, Mercer) is a state-chartered bank organized under the banking laws of the State of West Virginia. FCB, Mercer engages in general commercial and retail banking business in Mercer County, West Virginia. It provides safe deposit services and makes all types of loans, including commercial, mortgage and personal loans. FCB, Mercer also provides trust services and its deposits are insured by the FDIC. FCB, Mercer is a member of the Federal Reserve System and is a member of the FHLB of Pittsburgh.

First Community Bank, Inc.

First Community Bank, Inc. (FCB, Inc.) is a state-chartered bank organized under the banking laws of the State of West Virginia. FCB, Inc. engages in general commercial and retail banking business in Upshur, Wyoming, Taylor, Nicholas, Preston, Logan, and Webster Counties, West Virginia. It provides safe deposit services and makes all types of loans, including commercial, mortgage and personal loans. FCB, Inc. deposits are insured by the FDIC. FCB, Inc. is a member of the Federal Reserve System and is a member of the FHLB of Pittsburgh.

First Community Bank of Southwest Virginia, Inc.

First Community Bank of Southwest Virginia, Inc. (FCB-SWV), formerly Citizens Bank of Tazewell, Inc. is a state-chartered bank organized under the banking laws of the State of Virginia. FCB-SWV, Inc. engages in general commercial and retail banking business in Dickenson, Tazewell, Wise and Wythe counties in Southwest Virginia. It provides safe deposit services and makes all types of loans including commercial, mortgage and personal loans. FCB-SWV, Inc. deposits are insured by the FDIC. FCB-SWV, Inc. is a member of the Federal Reserve System.

Blue Ridge Bank

Blue Ridge Bank (Blue Ridge) is a state-chartered bank organized under the laws of the state of North Carolina. Blue Ridge engages in general commercial and

retail banking business in Alexander, Alleghany, Surry and Wilkes counties in North Central North Carolina. It provides safe deposit services and makes all types of loans including commercial, mortgage and personal loans. Blue Ridge deposits are insured by the FDIC. Blue Ridge is a member of the Federal Reserve System.

Pending Mergers

Early in 1999, the Company and its four subsidiary banks entered into an Agreement to Merge which provides for the merger of the four banks into a single national bank under the charter of First Community Bank, Inc. which will be converted to a national association as part of the reorganization (pending the regulatory approval of the Comptroller of the Currency). From the effective date of the merger (expected completion on April 30, 1999), all banking operations will be conducted under the charter and title of First Community Bank, N.A., a national association supervised by the Comptroller of the Currency.

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Lending Activities

The Company's banking subsidiaries generate revenues primarily through the investment of borrowed and deposited funds in earning assets. These assets are comprised of securities available for sale, investment securities, short-term investment vehicles and loans to businesses and individuals. Average loans represent approximately 67% of average earning assets and present a greater level of credit risk to the Company when contrasted with investment securities.

The principal lending activities of the banks are concentrated primarily within its market areas in West Virginia and the surrounding mid-Atlantic area. These are areas with which bank personnel are most acquainted and are within reasonable distances of the banks which allows for timely communications with customers as well as periodic inspections of collateral.

Loan portfolios total \$611.5 million at December 31, 1998 and are comprised of commercial, real estate and consumer loans including credit cards and home equity loans. Commercial and commercial real estate loans comprise 40.5% of the total loan portfolio. Commercial loans include loans to small to mid-size industrial and commercial and service companies that include but are not limited to, coal mining companies, manufacturers, automobile dealers, and retail and wholesale merchants. Collateral securing these loans includes equipment, machinery, inventory, receivables, vehicles and commercial real estate. Commercial loans are considered to contain a higher level of risk than other loan types although care is taken to minimize these risks. Underwriting standards require a comprehensive review and independent evaluation of virtually all commercial loans by Credit Administration and Discount Committees prior to approval with updates to these credit reviews performed periodically on a quarterly or annual basis depending on the size of the loan relationship.

Real estate mortgage loans comprise 37.3% of the total loan portfolio. Mortgage loans to consumers are secured primarily by first lien deeds of trust. These loans generally do not exceed an 80% loan to value ratio at the loan origination date and are considered to contain normal risk. Loans in the real estate mortgage category have historically yielded the lowest loss ratio of all loan types.

Consumer loans comprise 20.6% of the total loan portfolio. Collateral for these loans include automobiles, boats, recreational vehicles, and other personal property. Personal loans, home equity loans and unsecured credit card receivables are also included as consumer loans. Historically, losses on these types of loans have been minimal; however, indirect lending through various automobile dealerships in 1996 and 1997 led to a significant increase in consumer loan charge-offs in 1997 and 1998. During 1998, \$14 million in credit card revolving loan accounts were sold from the loan portfolio. This sale represented substantially all credit card loans held by the Bank.

The average yield on a tax equivalent basis on all loans in 1998 was 9.70% and average loans expressed as a percentage of average deposits were 74% in 1998. This percentage represents a lower average level of outstanding loans when compared with historical loan to deposit ratios of 81% in 1997 and 84% in 1996.

Employees

The Registrant and its subsidiaries had 505 employees at December 31, 1998. Management considers employee relations to be excellent.

Competition

The Company's subsidiaries have been able to compete effectively with other financial institutions in their respective market areas. The subsidiaries emphasize customer service in an effort to establish long-term customer relationships and build customer loyalty. The subsidiaries of the Company have consolidated services such as data processing, accounting, loan review and compliance, and internal audit services to enhance the ability to compete effectively in its respective markets.

Principal competition for the banking subsidiaries is provided by other local and regional commercial banking companies as well as Thrift Institutions, Credit Unions and investment brokerage firms. Other non-bank organizations including regional and national mortgage origination firms and manufacturer captive credit corporations also provide competition for residential real estate loans and consumer loans.

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Supervision and Regulation

The Registrant is a bank holding company within the meaning of the Bank Holding Act of 1956 (Act), as amended, 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 Registrant and the subsidiary and such other information as the Board of Governors may require. The Federal Reserve makes periodic examinations of the Registrant typically on an annual basis. The Act requires every bank holding company to obtain prior approval of the Board of Governors before acquiring substantially all the assets or direct or indirect ownership or control of more than 5% of the voting shares of any bank which is not already majority-owned. The Act also prohibits a bank holding company, with certain exceptions, from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities.

Bank holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"). Under the CRA, the Federal Reserve Board is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate-income neighborhoods. Further, such assessment is also required of any bank holding company which has applied to (i) charter a National bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of a federally-regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve Board will assess the record of each subsidiary of the applicant bank holding company, and such records may be the basis for denying the application or imposing conditions in connection with approval of the application. On July 1, 1995, the federal bank regulators amended the CRA regulations to simplify enforcement of the CRA

by substituting the prior twelve assessment categories with three performance categories for use in calculating CRA ratings. The federal bank regulators will evaluate banks under the lending, investment, and service tests. Additional data collection and reporting requirements are imposed on institutions which accept mortgage loan applications within metropolitan statistical areas.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") was enacted by Congress on August 9, 1989. Among the more significant consequences of FIRREA with respect to bank holding companies is the impact of the "cross-guarantee" provision and the significantly expanded enforcement powers of bank regulatory agencies. Under the cross-guarantee provision, if one depository institution subsidiary of a multi-unit holding company fails or requires FDIC assistance, the FDIC may assess a commonly controlled depository institution for the estimated losses suffered by the FDIC. While the FDIC's claim is junior to the claims of non-affiliated depositors, holders of secured liabilities, general creditors, and subordinated creditors, it is superior to the claims of shareholders. Among the significantly expanded enforcement powers of the bank regulatory agencies are the powers to (i) obtain cease and desist orders, (ii) remove officers and directors, (iii) approve new directors and senior executive officers of certain depository institutions, and (iv) assess criminal and civil money penalties for violations of law, regulations, or conditions imposed by, or agreements with, regulatory agencies.

In September 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 was passed. This legislation significantly changes the laws governing interstate banking. Beginning on September 29, 1995, bank holding companies could acquire banks located in any state, despite former prohibitive state statutes, subject to certain conditions. Beginning on June 1, 1997, banks were allowed to merge or consolidate on an interstate basis. States may elect to "opt-out" of this provision by expressly prohibiting interstate bank mergers. This Act also permits banks to branch into other states on a de novo basis provided that the state has enacted a law that permits de novo interstate branch banking.

The banking subsidiaries of the Registrant are subject to certain restrictions by regulatory bodies which limit the amounts and the manner in which it may loan funds to the Registrant. The banks are further subject to restrictions on the amount of dividends that can be paid to the Registrant in any one calendar year without prior approval by primary regulators. Payment of dividends by the subsidiary banks to the Registrant 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, or is not in the best interests of the public, could be prohibited. (For additional information concerning these restrictions, see Note 14 of the Notes to Consolidated Financial Statements incorporated by reference in Part II of this report.)

Governmental Monetary Policies and Economic Controls

The earnings of the Registrant and its subsidiaries are affected by the monetary policies of the Federal Reserve System. An important function of the Federal Reserve System is to regulate the National supply of credit in order to

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deal with economic conditions. The instruments employed by the Federal Reserve are open market operations of U.S. Government securities, changes in the discount rate on member bank borrowings, changes in Federal Funds rates and changes in reserve requirements. These policies influence, in various ways, the level of the company's investments, loans and deposits and rates earned on its earning assets and interest rates paid on liabilities.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY, INTEREST RATES AND INTEREST DIFFERENTIAL

A. & B. AVERAGE BALANCE SHEETS--NET INTEREST INCOME ANALYSIS

Table 2

(Amounts in Thousands, except %)

	1998			1997			1996		
	AVERAGE BALANCE	INTEREST	YIELD/RATE	AVERAGE BALANCE	INTEREST	YIELD/RATE	AVERAGE BALANCE	INTEREST	YIELD/RATE
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Earning Assets:									
Loans (2)									
Taxable	\$ 634,342	\$61,355	9.67%	\$601,492	\$58,676	9.76%	\$507,554	\$49,443	9.74%
Tax-Exempt	13,425	1,490	11.10%	15,993	1,657	10.36%	15,401	1,708	11.09%
Total	647,767	62,845	9.70%	617,485	60,333	9.77%	522,955	51,151	9.78%
Reserve for Loan Losses	(11,731)			(9,770)			(8,797)		
Net Total	636,036	62,845	9.88%	607,715	60,333	9.93%	514,158	51,151	9.95%
Securities Available For Sale:									
Taxable	121,704	7,750	6.37%	122,326	8,226	6.72%	104,112	6,690	6.43%
Tax-Exempt	26,056	2,015	7.73%	17,162	1,388	8.09%	15,472	1,333	8.61%
Total	147,760	9,765	6.61%	139,488	9,614	6.89%	119,584	8,023	6.71%
Investment Securities:									
Taxable	20,221	1,307	6.46%	45,581	2,820	6.19%	65,857	4,233	6.43%
Tax-Exempt	74,766	6,036	8.07%	59,547	4,830	8.11%	47,026	3,776	8.03%
Total	94,987	7,343	7.73%	105,128	7,650	7.28%	112,883	8,009	7.09%
Interest-Bearing Deposits	56,136	3,007	5.36%	418	44	10.53%	750	28	3.73%
Federal Funds Sold	29,628	1,593	5.38%	17,127	949	5.54%	2,188	117	5.35%
Total Earning Assets	964,547	84,553	8.77%	869,876	78,590	9.03%	749,563	67,328	8.98%
Other Assets	93,984			79,604			54,758		
Total	\$1,058,531			\$949,480			\$804,321		
Interest-Bearing Liabilities:									
Demand Deposits	\$ 134,195	3,732	2.78%	\$111,177	3,064	2.76%	\$ 92,857	2,519	2.71%
Savings Deposits	150,749	4,452	2.95%	141,827	4,350	3.07%	134,178	4,150	3.09%
Time Deposits	474,263	26,196	5.52%	406,208	21,359	5.26%	313,899	16,501	5.26%
Short-Term Borrowings	51,457	2,288	4.45%	59,462	2,623	4.41%	64,933	2,886	4.44%
Long-Term Borrowings	23,468	1,459	6.22%	22,654	1,494	6.59%	15,130	877	5.80%
Total Interest-Bearing Liabilities	834,132	38,127	4.57%	741,328	32,890	4.43%	620,997	26,933	4.34%
Demand Deposits	111,565			100,158			84,265		
Other Liabilities	12,236			13,955			13,465		
Stockholders' Equity	100,598			94,039			85,594		
Total	\$1,058,531			\$949,480			\$804,321		
Net Interest Income		\$46,426		\$45,700			\$40,395		
Net Interest Rate Spread (3)			4.20%			4.60%			4.64%
Net Interest Margin (4)			4.81%			5.25%			5.39%

(1) Fully Taxable Equivalent-Using the Federal statutory rate of 35% as applied

to non-taxable loans and securities in periods in which related tax benefits arise.
 (2) Non-accrual loans are included in average balances outstanding but with no related interest income.

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(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.

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C. RATE AND VOLUME ANALYSIS OF INTEREST (1)

Table 3

(Amounts in Thousands)

	1998 Compared to 1997 Increase/(Decrease) due to			1997 Compared to 1996 Increase/(Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned On:						
Loans	\$ 2,902	\$ (390)	\$ 2,512	\$ 9,228	\$ (46)	\$ 9,182
Investment securities available for sale	649	(498)	151	1,353	238	1,591
Investment securities held to maturity	(405)	98	(307)	(245)	(114)	(359)
Interest bearing deposits with other banks	2,995	(32)	2,963	(17)	33	16
Federal funds sold	673	(29)	644	828	4	832
Total interest earning assets	6,814	(851)	5,963	11,147	115	11,262
Interest Paid On:						
Demand deposits	640	28	668	504	41	545
Savings deposits	267	(165)	102	235	(35)	200
Time deposits	3,718	1,219	4,937	4,854	4	4,858
Short-term borrowings	(356)	31	(325)	(241)	(22)	(263)
Long-term debt	53	(98)	(45)	483	134	617
Total interest bearing liabilities	4,322	915	5,237	5,835	122	5,957
Change in net interest income	\$ 2,492	\$ (1,766)	\$ 726	\$ 5,312	\$ (7)	\$ 5,305

(1) Fully Taxable Equivalent-using the federal statutory rate of 35% as applied to non-taxable loans and securities in periods in which related tax benefits arise.

The preceding table sets forth a summary of the changes in interest earned and paid resulting from changes in volume of earning assets and paying liabilities and changes in rates thereon. For purposes of this analysis, the change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts.

II. INVESTMENT PORTFOLIO

A. Amortized Cost of Investment Securities Held to Maturity:

Table 4

(Amounts in Thousands)	December 31		
	1998	1997	1996
U.S. Treasury securities	\$ 100	\$ 4,098	\$ 8,247
U.S. Government agencies and corporations	7,546	26,377	43,494
States and political subdivisions	75,009	77,641	47,532
Other securities	1,361	1,058	1,055
	\$ 84,016	\$ 109,174	\$ 100,328

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Market Value of Securities Available for Sale:

Table 5

(Amounts in Thousands)	December 31		
	1998	1997	1996
U.S. Treasury securities	\$ --	\$ --	\$ 1,005
U.S. Government agencies and corporations	119,508	132,746	110,967
States and political subdivisions	37,343	22,576	16,037
Other securities	36,343	6,473	8,104
	\$ 193,194	\$ 161,795	\$ 136,113

B. Maturity and Yields

The required information is incorporated by reference to pages 33 and 34 of the 1998 Annual Report.

C. There are no issues included in obligations of states and political subdivisions or other securities which exceed ten percent of stockholders' equity.

III. LOAN PORTFOLIO

A. Loan Summary

Table 6

(Amounts in Thousands)	December 31				
	1998	1997	1996	1995	1994
Commercial, Financial and Agricultural	\$ 77,233	\$ 82,445	\$ 79,278	\$ 71,441	\$ 61,691
Real Estate- Commercial	170,683	202,625	166,787	152,579	129,672
Real Estate- Construction	8,988	9,612	10,589	5,608	2,406
Real Estate- Residential	228,540	227,465	171,455	155,282	143,350
Consumer	127,169	151,429	120,720	100,843	84,453
Other	894	1,185	552	519	501
Total	613,507	674,761	549,381	486,272	422,073
Less: Unearned Income	2,014	2,944	1,678	1,121	883
Less: Reserve for Loan Losses	611,493	671,817	547,703	485,151	421,190
Net Loans	\$600,089	\$660,411	\$538,716	\$476,830	\$412,711

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B. Maturities and Rate Sensitivity of Loan Portfolio at December 31, 1998:

Table 7

(Amounts in Thousands)	Remaining Maturities				
	One Year and Less	Over One Year to Five Years	Over Five Years	Total	Percent
Commercial, Financial and Agricultural	\$ 42,480	\$ 15,788	\$ 18,965	\$ 77,233	12.63%
Real Estate- Commercial	44,516	45,041	81,112	170,669	27.91%
Real Estate- Construction	2,623	428	5,937	8,988	1.47%
Real Estate- Mortgage	28,479	48,432	151,307	228,218	37.32%
Consumer	22,827	49,040	53,624	125,491	20.52%
Other	648	153	93	894	0.15%
	\$141,573	\$158,882	\$311,038	\$611,493	100.00%
Rate Sensitivity:					
Pre-determined Rate	\$ 89,116	\$117,367	\$257,540	\$464,023	75.88%
Floating or Adjustable Rate	\$2,457	41,515	53,498	147,470	24.12%
	\$141,573	\$158,882	\$311,038	\$611,493	100.00%
	23.15%	25.98%	50.87%	100.00%	

C. Risk Elements. The required information for risk elements is included below and incorporated by reference to pages 17 through 19 of the 1998 Annual Report.

Table 8

(Amounts in Thousands)	December 31				
	1998	1997	1996	1995	1994
Non-performing Assets:					
Non-accruing Loans	\$7,763	\$9,988	\$5,476	\$4,371	\$6,909
Loans Past Due Over 90 Days	377	4,391	780	673	968
Restructured Loans Performing in Accordance With Modified Terms	509	534	401	440	640
Gross Interest Income Which Would Have Been Recorded Under Original Terms of Non-Accruing and Restructured Loans	607	231			
Actual Interest Income During the Period	231				
Commitments to Lend					
Additional Funds on Non-Performing Assets	--				

Management believes that the extent of problem loans at December 31, 1998 is disclosed as non-performing assets or delinquent loans in the preceding charts. However, there can be no assurance that future circumstances, such as further erosion of economic conditions and the related potential effect that such erosion may have on certain borrowers' ability to continue to meet payment obligations, will not lead to an increase in problem loan totals. Management

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believes that the non-performing asset carrying values will be substantially recoverable, taking into consideration the adequacy of the applicable collateral and, in certain cases, partial write-downs which have been taken and allowances that have been established.

It is the Registrant's policy to discontinue the accrual of interest on loans based on their payment status and evaluation of the related collateral and the financial strength of the borrower. The accrual of interest is normally discontinued when a loan becomes 90 days past due as to principal or interest.

At December 31, 1998, and at the date of this report, the Company does not have any concentrations of loans to borrowers engaged in similar activities exceeding 10% of total loans, net of unearned income.

The Company has no significant concentrations of credit risk other than geographic concentrations. Most loans in the current portfolio are made and collateralized in West Virginia and the surrounding mid-Atlantic area. Although portions of the West Virginia economy are closely related to coal and timber, they are supplemented by service industries. The current economies of the Company's markets are relatively stable and are not seen as highly subject to volatile economic change.

The following table presents the Company's investment in loans considered to be impaired:

Table 9

(Amounts in thousands)	December 31	
	1998	1997
Commercial, financial and agricultural	\$5,112	\$6,800
Real estate-mortgage	154	708

Total investment in loans considered to be impaired -----
 \$5,266 ----- \$7,508 -----

Under SFAS No. 114, the allowance for loan losses related to loans that are identified for evaluation in accordance with SFAS No. 114 is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. 1. Summary of Loan Loss Experience:

Table 10

(Amounts in Thousands, Except Percent Data)	Years Ended December 31				
	1998	1997	1996	1995	1994
Balance of reserve at beginning of period	\$11,406	\$ 8,987	\$ 8,321	\$ 8,479	\$ 9,568
Reserve of subsidiaries at date of acquisition	--	1,981	--	--	--
Charge-offs:					
Commercial, financial and agricultural	3,602	2,052	369	1,875	2,237
Real estate- residential	367	385	275	109	163
Installment	3,019	2,761	1,537	899	963
Total Charge-offs	6,988	5,198	2,181	2,883	3,363
Recoveries:					
Commercial, financial and agricultural	190	130	249	126	83
Real estate- residential	31	31	26	35	7
Installment	515	512	299	329	420
Total Recoveries	736	673	574	490	510
Net charge-offs	6,252	4,525	1,607	2,393	2,853
Provision charged to operations	6,250	4,963	2,273	2,235	1,764
Balance of reserve at end of period	\$11,404	\$11,406	\$ 8,987	\$ 8,321	\$ 8,479
Ratio of net charge-offs to average loans outstanding	.97%	.73%	.31%	.54%	.70%
Ratio of reserve to total loans outstanding	1.86%	1.70%	1.64%	1.72%	2.01%

A. 2. The required information is incorporated by reference to page 18 of the 1998 Annual Report.

B. Allocation of Reserve for Loan Losses:

Table 11

(Amounts in Thousands, Except Percent Data)	December 31									
	1998		1997		1996		1995		1994	
Commercial, Financial and Agricultural	\$ 4,054	40%	\$ 4,795	42%	\$ 3,167	45%	\$ 3,465	46%	\$ 3,327	45%
Real Estate- Mortgage	2,297	39%	2,819	35%	1,956	33%	1,751	33%	747	35%
Consumer	1,378	21%	1,979	23%	1,567	22%	1,280	21%	1,099	20%
Unallocated	3,675	N/A	1,813	N/A	2,297	N/A	1,825	N/A	3,306	N/A
Total	\$11,404	100%	\$11,406	100%	\$ 8,987	100%	\$ 8,321	100%	\$ 8,479	100%

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

V. DEPOSITS

A. The required information for average deposits and rates paid by type is included on page 7 of this report.

B. Not applicable.

C. Not applicable.

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D. The required information is incorporated by reference to page 37 of the 1998 Annual Report and as follows:

Table 12

Maturities of Time Deposits of \$100,000 or more

(Amounts in Thousands)	1998
Three months or less	\$ 37,656
Over Three to Six Months	21,245
Over Six to Twelve Months	25,877
Over Twelve Months	28,574
Total	\$113,352

E. Not applicable.

VI. RETURN ON EQUITY AND ASSETS

A. The required information is incorporated by reference to page 12 of the 1998 Annual Report.

VII. SHORT-TERM BORROWINGS

A. Securities Sold Under Agreements to Repurchase and Other Short-Term Borrowings:

The Company uses various short-term funding sources including term repurchase agreements, customer repurchase agreements and Federal funds purchased. The Company's short-term borrowings and rates paid are summarized as follows (Amounts in Thousands, Except Percent Data):

Table 13

	1998		1997		1996	
	Amount	Rate	Amount	Rate	Amount	Rate
At year-end	\$47,680	3.97%	\$55,056	4.28%	\$53,031	4.02%
Average during year	51,457	4.45%	59,462	4.41%	64,933	4.44%
Maximum month-end balance	55,755		63,782		54,833	

B. Long-Term Advances From the Federal Home Loan Bank (FHLB) and Long-Term Debt

Two subsidiaries of the Company are members of the FHLB and as such have the ability to obtain advances from the FHLB. The Company had long-term advances from the FHLB (original maturities in excess of one year) of \$10 million with a weighted average rate of 6.01% at December 31, 1998 and \$15 million with a weighted average rate of 5.83% at December 31, 1997. The advances from the FHLB are secured by certain qualifying first mortgage loans, stock in the FHLB, mortgage-backed securities and certain other investment securities.

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ITEM 2. PROPERTIES

FIRST COMMUNITY BANK OF MERCER COUNTY, INC.

The offices of the Registrant are located within First Community Bank of Mercer County, Inc. at 1001 Mercer Street, Princeton, West Virginia. Principal properties owned by the subsidiary banks primarily consist of modern office facilities described as follows:

Princeton- Two-story, 30,000 square foot banking offices with detached drive-up/walk-in facility in Princeton, West Virginia, completed in 1976; Pine Plaza branch office with drive-up located in Princeton, West Virginia, constructed in 1986 on leased land with initial lease term plus renewal options totaling twenty years; moveable, modular branch office with drive-up/walk-in located in Martinsburg, West Virginia, constructed in 1983 on leased land. Seven (7) automated teller machines located throughout Mercer County.

Bluefield- Three-story, 37,000 square foot banking offices located on Federal Street with detached drive-up facility, completed in 1972 and walk-up automated teller machine located on premises; one off-site automated teller machine on leased land in Bluefield Plaza.

Bluewell- Two-story, 8,200 square foot banking offices with drive-up facility located in Bluewell, West Virginia completed in 1965; one drive-up automated teller machine located on premises.

Green Valley- Two-story, 6,000 square foot banking office with drive-up located in Green Valley, West Virginia, constructed in 1978. Branch office leased in Mercer Mall; one walk-up automated teller machine located on premises.

FIRST COMMUNITY BANK, INC.

Wyoming County- Two-story banking offices located in Pineville, West Virginia, acquired in 1961; two-story banking offices with drive-up located in Oceana, West Virginia, constructed in 1984; branch office with drive-up located in Mullens, West Virginia, constructed in 1984; moveable, modular branch office with drive-up/walk-in located in Pineville, West Virginia, constructed in 1984; three automated teller machines.

Upshur County- Three-story banking offices with an off-premise drive-up/walk-in facility located in Buckhannon, West Virginia, acquired in 1937; branch office with drive-up located in Tennerton, West Virginia, constructed in 1980; two automated teller machines.

Taylor County- Two-story banking offices with an attached drive-up/walk-up facility located in Grafton, West Virginia, constructed in 1966; one automated teller machine; one-story, 1,200 square foot banking offices with an attached drive-up facility, located in the Blueville area of Grafton, West Virginia, constructed in 1968.

Nicholas County- Two story banking offices and office addition with drive-up located in Richwood, West Virginia; off-premises facility with drive-up located in Richwood, West Virginia, constructed in 1977 on leased land; one and one-half story branch office with drive-up located in Summersville, West Virginia, constructed in 1984; one story branch office with an adjoining drive-up located in Craigsville, West Virginia, constructed in 1985; three automated teller machines.

Webster County- Branch office with drive-up located in Cowen, West Virginia, constructed in 1988.

Preston County- One-story, 4,000 square foot banking offices with an attached drive-up facility located in Howiesburg, West Virginia, constructed in the early 1920's and remodeled in 1981.

Logan County- Two and one-half story banking facility with attached two-lane drive-up located in Man, West Virginia, constructed in 1976 with additional levels added in 1981; separate mini-bank facility with four drive-thru lanes; banking sales center located inside the Wal-Mart Supercenter in Logan, West Virginia; one automated teller machine.

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FIRST COMMUNITY BANK OF SOUTHWEST VIRGINIA, INC.

Tazewell County- Bi-level, 6,500 square foot banking offices with attached drive-up facility and one automated teller machine located in Tazewell, Virginia, constructed in 1978; remodeled in 1981 and 1995; one-story, 2,500 square foot banking offices with an attached drive-up facility, located in Richlands, Virginia, constructed in 1989 and remodeled in 1995.

Dickenson County- Two story bank building with attached drive-up constructed in 1973 located in Clintwood, Virginia.

Wythe County- One story bank building with attached two-lane drive-up and one automated teller machine located in Fort Chiswell, Virginia, constructed in 1962; additions in 1984 and completely remodeled in 1994; a leased one story banking facility with walk-up automated teller machine and two-lane drive-up remodeled in 1997, located in Wytheville, Virginia.

Wise County- One story bank building with attached two-lane drive-up located in Pound, Virginia.

BLUE RIDGE BANK

Alleghany County- One story 17,980 square foot bank building constructed in 1987 located in Sparta, North Carolina.

Alexander County- 4,000 square foot one story banking facility situated on approximately three acres in Taylorsville, North Carolina; with a walk-up automated teller machine.

Wilkes County- One story, 1,500 square foot banking facility purchased by the bank in 1995, located in Hays, North Carolina.

Surry County- One story, 4,000 square foot banking facility purchased by the bank in 1995, located in Elkin, North Carolina; with a walk-up automated teller

machine.

ITEM 3. LEGAL PROCEEDINGS

The Registrant and its subsidiaries (the Company) are plaintiffs and defendants in lawsuits arising out of the normal course of business, in which claims for monetary damages are asserted. Management, after consulting with legal counsel handling the respective matters, is of the opinion that the ultimate outcome of such pending actions will not have a material effect on the consolidated results of operations or financial condition of the Registrant. Following is a summary of significant proceedings along with recent developments, where applicable.

In August 1997, the Company was named as a defendant in a suit styled Ann Tierney Smith, as Executrix of the Estate of Katharine B. Tierney, Ann Barclay Smith and Laurence E. Tierney Smith, Plaintiffs vs. PCFT, Inc., First Community Bank, Inc., Gentry, Locke, Rakes & Moore, and W. William Gust, Defendants, Civil Action No. 97-CV-408-K, seeking to overturn the establishment of a private foundation for which the Company's Trust and Financial Services Division serves as Trustee. The suit filed by heirs of the Foundation donor, seeks a total of \$6 million in compensatory and punitive damages as well as the termination of the Foundation. The Company and Trustee believe the creation and the operation of the Foundation represent the intent and will of the donor, accordingly, the Company has entered a vigorous defense of this suit and the continuation of the foundation's purpose. On October 15, 1998, the plaintiffs in the matter filed a motion for summary judgment. In a hearing on this motion, the Court requested that the Company, as defendant, file a motion for summary dismissal. The motion for summary dismissal was filed with the Court on January 14, 1999, and in a subsequent ruling, the Court partially granted the bank's motion for summary judgment finding no wrongdoing by the bank in its discretionary use of principal in this matter. The plaintiffs subsequently filed a motion requesting that the court's order dismissing a portion of the case be amended to allow the plaintiff to immediately appeal the decision to the State Supreme Court. No ruling on this motion has been made as of this report. Both management and the Company's legal counsel are of the opinion that the remainder of this suit is without merit and will be successfully defended with no material adverse impact on the Company's financial condition or results of operations.

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Civil suit number CAN-97-C-171 styled James A. Sill d/b/a Sill Trucking vs. First Community Bank, Inc. and Carla Elder and Robert Williams was filed on October 15, 1998 alleging the Company aided a customer in converting checks payable to the company for payment on loan accounts of the co-defendants. The plaintiff claims to have purchased rolling stock from co-defendants pursuant to an oral contract. The suit seeks \$150,000 in compensatory and punitive damages. The Company has no knowledge of arrangements between the two plaintiffs and was not a party to the oral contract. The Company has filed an answer to this suit denying the allegations against the Company and intends to vigorously defend this matter. No material adverse impact on the Company's financial condition or results of operations is expected as a result of this litigation.

Civil Action No. 82-C-610, styled Rhondal L. Toler, et al. vs. Castle Rock Bank of Pineville, filed on December 2, 1982 in the Circuit Court of Wyoming County, West Virginia, was reported in the 1997 Annual Report on Form 10-K. In this action, Rhondal L. and Annette Toler and Vern and Henrietta Ellison, Plaintiffs, claimed that former representatives of a subsidiary of the Registrant misrepresented the condition of a company at the time the Plaintiffs borrowed money to purchase the company. The Company filed an answer denying all pertinent allegations made by the Plaintiffs and additionally filed a counterclaim seeking \$322,000 plus costs. This case was dismissed in 1996 due to its prolonged existence on the Court docket and the Plaintiff's failure to prosecute. The Plaintiff has filed a motion to reinstate this matter. Ruling on this motion has not been made as of the date of this report.

Additionally, the Company is also subject to certain asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these claims and unasserted potential claims will not have a material adverse effect on the Company's financial position or results of operations and, due to the relative smaller amounts of claims where damages are sought and/or based upon the Company's evaluation, these matters have not been included in this report.

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 1998.

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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED MATTERS

Market Price of Common Stock

The common stock of First Community Bancshares, Inc. is traded over-the-counter and is quoted on the NASDAQ (Level III) Electronic Billboard. The following table shows the approximate high and low bids as known to the Company or reported by local brokers for each quarter in 1997 and 1998. Also, presented below is the book value and cash dividends paid per share as of and for each quarter of 1997 and 1998. The number of common stockholders of record on December 31, 1998 was 2,149 and outstanding shares totaled 7,014,042.

Table 14

1997	Bid		Book Value Per Share	Cash Dividends Per Share
	High	Low		
First Quarter	\$23.68	\$21.76	\$12.83	\$.22
Second Quarter	26.40	22.60	13.30	.25
Third Quarter	28.90	25.40	13.58	.25
Fourth Quarter	32.00	26.20	13.85	.32

				\$1.04
				=====

Table 15

1998				

	Bid	Low	Book Value Per Share	Cash Dividends Per Share
First Quarter	\$29.60	\$24.48	\$14.18	\$.25
Second Quarter	43.00	36.00	14.01	.25
Third Quarter	42.75	31.00	14.35	.25
Fourth Quarter	33.75	26.50	14.50	.30

				\$1.05
				=====

The holders of shares of common stock of the Company are entitled to such dividends as the Board of Directors, in its discretion, may declare out of funds legally available thereof. On March 16, 1999 a five for four stock split in the form of a 25% stock dividend was declared and will be distributed to stockholders of record on March 31, 1999.

The Company has historically paid dividends on a quarterly basis and currently intends to continue to pay such dividends in the foreseeable future. However,

there can be no assurance that dividends will be paid in the future. The declaration and payment of future dividends will depend upon, among other things, the Company's earnings and financial condition, the general economic and regulatory climate.

The Company's ability to pay dividends to its shareholders depends to a large extent upon the dividends the Company receives from its subsidiaries. Dividends paid by its banking subsidiaries are subject to restrictions under various Federal banking laws. In addition, the banking subsidiaries must maintain certain capital levels which may restrict their ability to pay dividends to the Company. As of December 31, 1998, the net profits available for distribution to the shareholders as dividends without regulatory approval were approximately \$1.5 million; however the regulators of the banking subsidiaries could administratively impose stricter limits on the ability of the banking subsidiaries to distribute net profits to the Company.

ITEM 6. SELECTED FINANCIAL DATA

The required information is incorporated by reference to page 12 of the 1998 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The required information is incorporated by reference to pages 10 through 22 of the 1998 Annual Report.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk (IRR) and Asset/Liability Management

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. Specific strategies for management of IRR have included shortening the amortized maturity of fixed-rate loans and increasing the volume of adjustable rate loans to reduce the average maturity of the Bank's interest-earning assets.

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, the bank performs quarterly simulations of NII using financial models which 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 and assumptions as to changes in the volume and mix of interest-earning assets and interest-paying liabilities and management's estimate of yields attained in those future rate environments and rates which will be paid on various deposit instruments and borrowings.

The following table summarizes the impact on NII and the Market Value of Equity (MVE) as of December 31, 1998 and 1997, respectively, of immediate and sustained rate shocks in the interest rate environment of plus and minus 100, 200, 300 and 400 basis points from the flat rate simulation. The table depicts the impact of these changes over a twelve month period.

Table 16

Change in Interest Rates (Basis Points)	1998			
	Net Interest Income	\$ Change	Market Value of Equity	\$ Change
400	40,553.2	-7.8	66,179.6	-38.9
300	42,404.3	-3.5	79,027.9	-27.1
200	43,698.5	-0.6	89,626.2	-17.3
100	43,975.2	0.3	99,119.2	-8.5
0-	43,961.3	0.0	108,354.2	0.0
-100	45,154.9	2.7	118,235.6	9.1
-200	46,330.5	5.4	128,938.6	19.0
-300	46,229.8	5.2	140,663.2	29.8
-400	44,889.4	2.1	153,564.1	41.7

Table 17

Change in Interest Rates (Basis Points)	1997			
	Net Interest Income	\$ Change	Market Value of Equity	\$ Change
400	32,290.6	-25.5	90,873.7	-7.6
300	35,086.1	-19.1	92,359.7	-6.1
200	37,862.7	-12.7	94,062.0	-4.4
100	40,620.2	-6.3	96,045.5	-2.4
0-	43,359.8	0.0	98,390.1	0.0
-100	46,079.4	6.3	101,192.9	2.8
-200	48,781.8	12.5	104,572.5	6.3
-300	51,466.0	18.7	108,701.2	10.5
-400	54,132.2	24.8	113,982.1	15.8

The preceding table which illustrates the prospective effects of hypothetical interest rate changes is based upon numerous assumptions, including relative and estimated levels of key interest rate factors. Management feels that this type of modeling technique, although useful, does not take into account all strategies which 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

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preference changes, and other internal/external variables. Additionally, management does not believe that a rate shock of the magnitude described is likely in the forecast period presented.

When comparing the impact of the rate shock analysis between 1998 and 1997, the 1998 changes in net interest income reflect a smaller fluctuation from the flat rate scenario. The reduction in the fluctuations is attributed to the increased life of the investment portfolio and the control measures taken in the fourth quarter of 1998 to reduce deposit cost. Conversely the impact of the analysis has a larger effect on the market value of equity due to increased portfolio terms negotiated in 1998 in order to achieve higher yields in the presence of the declining rate environment experienced in 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required information is incorporated by reference to pages 24 through 47 of the 1998 Annual Report and as follows:

Table 18

FIRST COMMUNITY BANCSHARES, INC.
 QUARTERLY EARNINGS SUMMARY (UNAUDITED)
 Quarterly earnings for the years ended December 31, 1998 and 1997 are as follows
 (in thousands):

	1998			
	March 31	June 30	Sept 30	Dec 31
Interest Income	\$20,655	\$20,620	\$20,330	\$19,607
Interest Expense	9,551	9,678	9,633	9,267
Net interest income	11,104	10,942	10,697	10,340
Provision for possible loan losses	1,287	3,789	749	425
Net interest income after provision				
for loan losses	9,817	7,153	9,948	9,915
Other income	3,259	2,452	3,100	2,372
Other expenses	7,338	7,388	7,258	6,768
Income before income taxes	5,738	2,217	5,790	5,519
Income taxes	1,784	681	1,795	1,903
Net income	\$ 3,954	\$ 1,536	\$ 3,995	\$ 3,616
Per share:				
Basic and diluted earnings	\$.56	\$.22	\$.57	\$.51
Dividends	\$.25	\$.25	\$.25	\$.30
Weighted average basic and diluted shares outstanding	7,063	7,049	7,032	7,019

Table 19

	1997			
	March 31	June 30	Sept 30	Dec 31
Interest Income	\$16,546	\$18,934	\$19,512	\$20,842
Interest Expense	6,942	7,946	8,609	9,393
Net interest income	9,604	10,988	10,903	11,449
Provision for possible loan losses	630	1,087	736	2,510
Net interest income after provision				
for possible loan losses	8,974	9,901	10,167	8,939
Other income	1,824	2,163	2,123	2,551
Other expenses	5,441	5,975	7,305	5,951
Income before income taxes	5,157	6,089	4,985	5,539
Income taxes	1,660	1,950	1,598	1,668
Net income	\$ 3,697	\$ 4,139	\$ 3,387	\$ 3,871
Per share:				
Basic earnings	\$ 0.52	\$ 0.59	\$ 0.48	\$ 0.55
Dividends	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.32
Weighted average basic and diluted shares outstanding	7,063	7,063	7,063	7,064

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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 3, 4, 5, and 6 of the Proxy Statement relating to the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

A portion of the information relating to executive officers has been omitted in accordance with General Instruction G. Such information regarding executive officers appears on pages 6, 7, and 8 of the Proxy Statement relating to the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The required information concerning management remuneration has been omitted in accordance with General Instruction G. Such information appearing on pages 7, 8, 9, and 10 of the Proxy Statement relating to the 1999 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 page 6 of the Proxy Statement relating to the 1999 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The required information concerning certain relationships and related transactions have been omitted in accordance with General Instruction G. Such information appearing on pages 5 and 6 of the Proxy Statement relating to the 1999 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 14. 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 January 29, 1999 are incorporated by reference to pages 24 through 47 of the 1998 Annual Report which is included herein as Exhibit 13.

(2) Financial Statement Schedules

All applicable financial statement schedules required by Regulation S-X are included in the Notes to Consolidated Financial Statements.

(b) No reports on Form 8-K were filed during the current year.

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(c) Exhibits:

(3) Articles of Incorporation and Bylaws

The Registrant's Articles of Incorporation and By-laws were previously filed as exhibits (3)(i) and (3)(ii), respectively, with the Annual Report on Form 10-K for the year ending 12/31/97 in connection with the change of corporate domicile to a Nevada corporation.

(11) Statement Regarding Computation of Per Share Earnings

The statement regarding computation of per share earnings is included as Note 10 of the Notes to Consolidated Financial Statements in the 1998 Annual Report to Stockholders and is incorporated herein by reference.

(13) Annual Report to Security Holders

(21) Subsidiaries of Registrant:

- First Community Bank, Inc. (a West Virginia Corporation)
First Community Bank of Mercer County, Inc. (a West Virginia Corporation)
First Community Bank of Southwest Virginia, Inc. (a Virginia Corporation)
Blue Ridge Bank, Inc. (a North Carolina Corporation)

(23) Independent Auditors' Consent

(27) Financial Data Schedule

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/
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/
Principal Accounting Officer

Table 20

Table with 3 columns: Signature, Title, Date. Lists 10 directors and their signatures, titles, and dates (all 3/30/99).

Section 2: EX-13 (1998 ANNUAL REPORT)

FINANCIAL HIGHLIGHTS

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

EARNINGS AND DIVIDENDS

Table 1

Table with 4 columns: Description, 1998, 1997, 1996. Rows include Net income, Basic and diluted earnings per share, Cash dividends per share, Return on average equity, and Return on average assets.

BALANCE SHEET DATA AT YEAR-END

Table 2

Table with 4 columns: Description, 1998, 1997, 1996. Rows include Total assets, Earning assets, Deposits, Securities sold under agreements to repurchase, and Stockholders' equity.

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LOGO First Community Bancshares Logo

MESSAGE TO STOCKHOLDERS

TO OUR STOCKHOLDERS:

First Community Bancshares, Inc. enjoyed another great year in 1998. We are pleased to provide this report on the financial performance of your Company for that year and to review with you other activities, both completed and ongoing, which are directed to ensuring continuing financial success in the future.

The world is counting the days to December 31, 1999, and the beginning of a new millennium. Computer readiness for the Year 2000 and its impact on the world economy is an ongoing topic of discussion and has resulted in misinformation and the unnecessary heightening of concerns that banks and the financial system may not be ready for the transition. The Year 2000 issue in its most simple form is based upon the inability of some computer chips and software to distinguish between the years 2000 and 1900. First Community began its Y2K efforts in 1997, carefully reviewing all computer hardware and software purchases for Y2K readiness. Early in 1998, the Board of Directors appointed a Y2K coordinator and established a committee to review all operations of the Company to ensure we are well prepared to make the millennium change smoothly. First Community's core processing systems which support customers and other information applications are dependent upon hardware and software used by literally hundreds of other financial institutions throughout the country. These systems are state-of-the-art and have been undergoing Y2K readiness testing since 1997, first by the vendors themselves then by users similar to First Community. Our systems have been tested by artificially advancing the internal system dates gradually through the year 2000 and beyond while processing data. Our core systems all have performed well which was expected as they have been certified by vendors of substantial reputation as Y2K compliant and have undergone substantial independent testing by other users with similar good results. Other non-customer computer applications have been or are being tested throughout the Company and where necessary both software and hardware replaced and retested. The Company has budgeted \$150,000 in one-time costs to prepare for the Y2K transition. As a further precaution, a contingency plan was developed early in 1999 to ensure there is no disruption of service to our customers or disruption of operations in the unlikely event our testing fails to identify a potential problem or should a vendor critical to our operations experience problems with the millennium date change.

Table 4

	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
	(Amounts in thousands)				
Total Assets	744,686	780,253	837,615	1,042,322	1,054,006
Earnings Assets	684,630	723,616	775,244	955,337	971,856

With these testing efforts continuing throughout the remainder of 1999, our efforts have now been directed to communicating with customers our state of readiness and to working with customers to ensure they too are well-prepared. All of these activities should ensure that the century date change is a non-event for First Community and, as one of our Y2K marketing pieces states, "we want to ensure that the only ball dropped on New Year's Eve is in Times Square."

Net income for 1998 was \$13.101 million, significantly lower than the \$15.094 million reported for 1997 and lower than our plan. Late in the second quarter the Company recorded a one-time \$2,900,000 loan loss provision related to a single commercial loan charge-off resulting from foreclosure on a West Virginia based furniture manufacturing facility. Although reserves had been established in prior periods related to this loan, a single provision adequate to absorb the entire loss significantly strengthened the Company's reserves and positioned us well to speedily dispose of the real estate acquired through foreclosure. This extraordinary loan loss provision, while undesirable, is a result of our role as a community bank which includes contributing to and supporting community development efforts which create jobs and add to the ongoing economic vitality

of the areas we serve. Over the years, First Community Banks have been lenders to the small business community and have always been supporters of new business and business expansion through involvement in loans to developing enterprises. Most of these investments have yielded great dividends in the form of new jobs and the improvement of local economies. From time to time, however, success is not realized and assets which serve as collateral must be liquidated often at values which are inadequate to repay the entire debt. First Community will, however, continue to play a significant role in the economic development process within the bounds of prudent underwriting and tolerable risk as we believe that community involvement and willingness to invest in efforts to improve the economic health of our communities is one of the primary roles of your Company. We are pleased to report that the manufacturing facility is under contract to sell with the closing expected in March 1999, and that the new owner will not only create jobs at the facility but will immediately begin a substantial building expansion which will create even more opportunity and employment in our market area.

Earnings per share were \$1.86 in 1998 compared with \$2.14 for the preceding year while dividends paid were \$1.05 and \$1.04 in 1998 and 1997, respectively. Return on Average Equity which measures our stewardship of your equity was 13.02% for 1998, very comparable to our peers, but somewhat off the 16% standard set by First Community in recent

Table 5

	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
Dividends Per Share	.68	.78	.91	1.04	1.05
Basic Earnings Per Share	1.62	1.82	1.98	2.14	1.86

years. Return on Average Assets measures our ability to use assets to produce net income combined with the effective use of capital resources. Acquisitions completed during 1997 which added over \$200 million in resources, negatively impacted our Return on Average Assets. This reduction is part of our overall strategic plan which requires more effective leveraging of capital with asset growth through acquisitions that produce initial returns on assets of less than 1%. Return on Average Assets was 1.24% in 1998, 1.59% in 1997 and 1.73% in 1996, reflecting the impact of acquisitions completed during 1997.

Table 6

	1994	1995	1996	1997	1998
Return on Average Equity	16.33	16.77	16.26	16.05	13.02
Return on Average Assets	1.55	1.70	1.73	1.59	1.24

While the extraordinary provision for loan losses discussed above significantly impacted net income, earnings per share, return on average equity and return on average assets, a rapid downturn in overall interest rates to 30-year low compressed net interest margins during 1998 as assets repriced more rapidly than did liabilities. In addition, current attitudes of many bank and non-bank financial service providers which have relaxed what we consider prudent risk/reward standards resulted in the prepayment of approximately \$40 million in outstanding commercial loans in 1998. The U.S. economy is more robust than ever in history. However, there is, in our opinion, never a time when it makes good long-term sense to weaken commercial and other loan underwriting standards, regardless of competitive pressures, as any future economic downturn will have significant negative impact on the collection of poorly underwritten credit. Our approach continues to be one of care, caution and patience as we remain

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willing to give up some current period net interest income to avoid substantial exposure to losses in the future.

Total assets grew to \$1.054 billion at year-end 1998 compared with \$1.042 billion at year-end 1997. Earning assets, those which produce revenue, grew to an impressive \$971.9 million from \$955.3 million one year earlier. Stockholders' equity, the foundation upon which the Company is based, broke the \$100 million mark in 1998 and was \$101.7 million at year end with book value per share of \$14.50 compared with \$13.85 at the end of 1997. Reserves for loan losses were \$11.4 million at year end 1998 or 1.86% of outstanding loans, an increase of 9.86% over the 1.70% reported at the end of 1997. Record levels of assets, capital and reserves position First Community well for the new millennium and the years to follow.

Wide-ranging issues including deterioration in the global economy, the flattening of the yield curve, projected costs of Y2K remediation, concern over industry-wide relaxation of underwriting standards, slowdown in industry consolidation and the threat of a deflationary recession took its toll on the market value of stock in the financial services sector during the third and fourth quarters of 1998 and continuing adjustment has been experienced in early 1999.

Table 7

	PERFORMANCE COMPARISON		
	S&P 500 INDEX	FCBC	PEER GROUP
1993	100.00	100.00	100.00
1994	101.00	134.00	98.00
1995	139.00	149.00	114.00
1996	170.00	162.00	155.00
1997	223.00	241.00	223.00
1998	283.00	240.00	218.00

Currently, bank stocks are trading at approximately 58% of the S&P 500 versus historical averages of 63% on a relative price/earnings basis, in spite of record levels of capital and reserves, lower levels of non-performing assets and record earnings in the industry. First Community did not escape the broad decline in the market for bank stock with a market value of \$29.25 at December 31, 1998, compared with \$30.45 at year end 1997, and slipping to \$27.00 during January and February 1999. Cumulative returns on your First Community stock, however, continue to out-perform our peers which also were negatively impacted by the decline in the broader market, but for the first time in recent years were slightly below the S&P 500.

The decline in market value afforded the Company the opportunity to reinstate our Stock Repurchase Program in the third quarter of 1998 which had been suspended since 1996 due to pending business combinations. Your Company's Board of Directors has authorized the repurchase of up to 100,000 shares of FCBC stock on the open market. The timing, price and quantity of purchases are at the discretion of the Corporation and the program may be discontinued or suspended at any time. The Board believes that current market prices present an attractive buying opportunity for the Company and will make the shares available for general corporate purposes which may include potential acquisitions, shareholder dividend reinvestment and employee benefit plans.

Table 8

	1994	1995	1996	1997	1998
Market Value Per Share	18.88	21.12	22.08	30.45	29.25
Stockholders' Equity (In thousands)	70,149	80,411	89,276	97,860	101,737

In June 1998, your Board of Directors adopted a new plan of strategic vision for the Company which provides both direction and goals well into the future. The 1998 Strategic Plan provides a new statement of purpose, vision and culture specifically focused on stockholders, customers and employees. Although no area of operation is untouched by the Plan, its primary focus is on raising the level of

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service quality to all those we serve. Initiatives incorporated in the Plan transform the entire organization into one which is more proactive, moving from a focus on products and delivery to a greater focus on customer relationships and their needs. The entire financial services community is undergoing rapid change and we are excited that the activities contemplated by our Strategic Plan will create an organization of service second to none, providing the financial products and services necessary for our customers to reach their maximum financial potential as we go through the years ahead together. We think that success in the future will be the result of First Community growing with its well-established customer base, and we are confident the new Strategic Plan provides the guidance to ensure that future success.

During 1999, we celebrate 125 YEARS OF SERVICE to customers, communities and shareholders. Rich in history and heritage, we enjoy a unique position in that fewer and fewer true community banking institutions exist today. We quietly invest our time, our economic resources and ourselves in the communities which we call home to ensure their continual success as ours is an effort of cooperation -- an effort of community -- simply what we are about. One well-known author succinctly stated the challenge of the future when he said, "It is not the strongest that survive, nor the most intelligent, but the one most responsive to change." We do not wish only to survive by being responsive to the changes around us, but desire to thrive in the new millennium and the years to come by being a proactive agent of change. First Community is celebrating 125 years of success and, armed with a new vision, is well-prepared for the century date change and is excited about the opportunities which lie in its future. As always, we greatly appreciate your loyalty and support as customers and stockholders and welcome your input and suggestions.

Sincerely,
/s/ James L. Harrison, Sr.
James L. Harrison, Sr.
President & Chief Executive Officer

[PICTURE]

The Officers of First Community Bancshares, Inc. from left to right:

JOHN M. MENDEZ, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
JAMES L. HARRISON, SR. PRESIDENT AND CHIEF EXECUTIVE OFFICER
ROBERT L. BUZZO, VICE PRESIDENT

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YEAR 2000 STATEMENT

First Community Bancshares has made a commitment to Year 2000 readiness which began in 1997 and will continue until the issue is resolved in the coming New Year. The Year 2000 problem revolves around a computer programming oversight which was made when program date fields were written in two character (i.e., 99) instead of four character (i.e. 1999) formats. It is feared that when the date changes from 1999 to 2000, some systems may not properly recognize the step forward to 2000 and revert to 1900. This incorrect assumption may cause the non-Y2K ready systems to malfunction or fail.

What is First Community Bancshares' solution for the Y2K problem? Our solution is extensive planning and preparation. Our Board of Directors and senior management have made Year 2000 readiness a top priority. An in-depth Year 2000 Plan was devised and a Board-appointed Steering Committee composed of senior level management and internal technology specialists was assembled to address our Year 2000 concerns.

Our Year 2000 Plan not only addresses First Community's Y2K preparation, but also works to verify that our vendors are prepared and will not fail to deliver the services upon which we rely. The Plan incorporates the Federal Financial Institution Examination Council's guidelines and deadlines for bank Y2K preparations. These guidelines are divided into five phases: Awareness, Assessment, Renovation, Testing and Implementation. The Plan also focuses on evaluating the ability of our primary borrowers to operate and keep their relationships in good standing. The results of this evaluation have been encouraging and indicate that most of our customers and vendors are aware of and are working to eliminate the Y2K issues they may face.

First Community Bancshares' Year 2000 Steering Committee began a full risk assessment of hardware, software and service providers during the fourth quarter of 1997. The Committee has used this risk assessment to help monitor Year 2000 remediation and testing efforts for computer systems throughout our organization. Special attention has been focused on "mission critical" systems - those systems upon which our Company most heavily relies for daily operation. The key component in our system is the central mainframe computer, which is an IBM AS400. Not relying upon hardware and software manufacturer reassurances, the Steering Committee acquired an additional AS400 computer in September 1998 for use as a "time machine." The AS400 "time machine" enabled First Community's specialists to leap forward into the future to December 31, 1999. On this simulated New Year's Eve the test team ran our actual core application software (CBS Fiserv) on the same type of computer that drives the Bank's daily operations. Both hardware and software ran smoothly through the simulated New Year's date change, through the leap year and other key processing dates which have generated concern. So far, this test has provided us with assurance that our core system and its connected sub-systems have been properly remediated and will be able to deliver non-interrupted service to our customers in the new millennium. All other mission critical systems have also performed superbly in extensive Y2K testing, the results of which have been verified by system users and our audit department's quality control staff. In addition to our testing, the hardware and software used by our Company is used by other banks nationally and has withstood their testing regimens.

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Although First Community Bancshares' important systems have been tested and proven Y2K ready, a contingency plan has been developed. This plan provides further assurance that no disruption of service will occur in the unlikely event our testing efforts have failed to identify a potential Year 2000 problem. The second and third quarters of 1999 will be devoted to Year 2000 contingency plan training and testing.

Our in-depth risk assessment also isolated some systems which were not capable of working in the new millennium. The systems which have been or are being replaced include payroll, several personal computers and their operating systems and some telephone equipment. Non-compliant systems will be replaced and thoroughly tested before the century date change.

Our projected Year 2000 direct expenses are expected to total \$150,000. Due to our practice of investing in top quality technology, the actual direct expense to date has been approximately \$47,000. These expenses have been aimed at replacing non-compliant systems and personnel costs associated with our comprehensive testing and test results validation. In addition to these direct expenses, \$30,000 in administrative costs have been realized to assure proper management of the project.

We are proud of the efforts and results of our Year 2000 preparation and are excited by the level of readiness it has given our Company. The commitment and energy of our board, management and staff will ensure that our 125 year old company will be there to provide service in the new millennium.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This discussion should be read in conjunction with the consolidated financial statements, notes and tables included throughout this report and the Company's Annual Report on Form 10-K. Management's discussion and analysis may contain forward-looking statements that are provided to assist in the understanding of future financial performance. However, such performance involves risks and uncertainties, which may cause actual results to differ materially from those expressed in forwarding-looking statements.

First Community Bancshares, Inc. (the 'Company' or 'First Community') is currently a multi-state, multi-bank holding company headquartered in Princeton, West Virginia. With total resources of \$1.054 billion at year-end 1998, First Community provides financial and trust services to individuals and commercial customers through 33 full-service banking locations in West Virginia, Virginia and North Carolina.

In February 1999, the respective boards of the four affiliate banks adopted a merger and reorganization agreement providing for the merger of all affiliate banks of First Community Bancshares, Inc. into a single national association. The mergers are expected to be complete on or about April 30, 1999, at which time all banking operations will be conducted within First Community Bank, N.A., a national association subject to supervision of the Comptroller of the Currency. The mergers are designed to enhance operational efficiency and streamline regulatory considerations.

The completion of bank and branch acquisitions in 1997 resulted in significant growth in total resources of the Company between 1996 and 1997 and have a material impact on the following discussion of financial condition and results of operations in comparison with other periods presented.

ACQUISITIONS

The Company acquired Citizens Bank of Tazewell ("Citizens") in Tazewell, Virginia in July 1996 and Blue Ridge Bank ("Blue Ridge") in Sparta, North Carolina in April 1997. Additionally, the Company acquired three Virginia branches in July 1997 and one additional West Virginia branch in September 1997. All of the above acquisitions, except Citizens, were accounted for as "purchase" transactions. "Purchase" accounting does not require restatement of prior years' results; accordingly, the addition of Blue Ridge and the branches result in material changes in balance sheet items and revenues and expenses.

The Company's common stock was split five shares for four on March 31, 1997 and March 31, 1998. All share and per share data in this report have been retroactively adjusted to reflect these two stock splits.

SUMMARY FINANCIAL RESULTS

Table 10

	NET INCOME
1994	11,454
1995	12,789
1996	13,917
1997	15,094
1998	13,101

Net income for 1998 was \$13.1 million, or \$1.86 per share, down \$1.99 million from \$15.09 million or \$2.14 per share in 1997. The decrease in net income between 1997 and 1998 is primarily attributable to higher loan loss provisions in the second quarter of 1998 due to the resolution through foreclosure of a \$4.7 million commercial loan relationship. Other factors negatively affecting 1998 results include the increase in operating costs and intangible amortization associated with the bank and branch acquisitions and the decline in net interest margin from 5.25% in 1997 to the 1998 level of

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4.81%. The reduction in net interest margin reflects the addition of interest cost on acquisition indebtedness, a decrease in the Company's loan-to-deposit ratio, and declining asset yields as a result of the overall decreasing trend in the interest rate environment throughout 1998.

Table 11

	RETURN ON AVERAGE ASSETS (%)
1994	1.55%
1995	1.70%
1996	1.73%
1997	1.59%
1998	1.24%

The Company's key profitability ratios of Return on Average Assets (ROA) and Return on Average Equity (ROE) continue to reflect the strong earnings performance of the Company and compare favorably with regional and national peer groups. ROA, which measures the Company's stewardship of assets, was 1.24%, down from 1.59% in 1997 and 1.73% in 1996. These decreases in ROA relate, in large part, to branch acquisitions and related increases in average assets in 1997 and 1998 designed to maintain the Company's capital leverage position. ROE for the Company remained strong in 1998 at 13.02% but reflects a decrease from 16.05% in 1997 and 16.26% in 1996. The declining ROE reflects the effect of capital growth from \$80.4 million in 1995 to \$101.7 million at the close of 1998 and the lower net income in 1998 as discussed in the preceding paragraph.

Table 12

	RETURN ON AVERAGE EQUITY (%)
1994	16.33%
1995	16.77%
1996	16.26%
1997	16.05%
1998	13.02%

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FIVE-YEAR SELECTED FINANCIAL DATA

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

Table 13

	1998	1997	1996	1995	1994
BALANCE SHEET SUMMARY (AT END OF PERIOD)					
Loans, net of unearned income	\$ 611,493	\$ 671,817	\$547,703	\$485,151	\$421,189
Reserve for loan losses	11,404	11,406	8,987	8,321	8,479
Securities	277,210	270,969	216,441	246,578	268,906
Total assets	1,054,006	1,042,322	837,615	780,253	744,686
Deposits	875,996	853,507	643,497	622,723	616,226
Long-term debt	18,176	24,330	15,000	15,000	10,000

Stockholders' Equity.....	101,737	97,860	89,276	80,411	70,149
SUMMARY OF EARNINGS					
Total interest income.....	\$ 81,213	\$ 75,834	\$ 64,941	\$ 58,954	\$ 53,723
Total interest expense.....	38,128	32,890	26,933	23,482	19,846
Provision for loan losses.....	6,250	4,963	2,273	2,235	1,764
Non-interest income.....	11,182	8,661	9,070	7,214	7,035
Non-interest expense.....	28,752	24,672	24,358	22,694	23,238
Income tax expense.....	6,164	6,876	6,530	4,968	4,456
Net Income.....	13,101	15,094	13,917	12,789	11,454
PER SHARE DATA					
Basic and diluted earnings.....	\$ 1.86	\$ 2.14	\$ 1.98	\$ 1.82	\$ 1.62
Cash dividends.....	1.05	1.04	.91	.78	.68
Book value at year-end.....	14.50	13.85	12.64	11.50	9.97
SELECTED RATIOS					
Return on average assets.....	1.24%	1.59%	1.73%	1.70%	1.55%
Return on average equity.....	13.02%	16.05%	16.26%	16.77%	16.33%
Dividend payout.....	56.45%	48.60%	45.96%	42.86%	41.98%
Equity to year-end assets.....	9.65%	9.39%	10.66%	10.31%	9.42%
Risk based capital to risk adjusted assets.....	13.25%	11.96%	17.02%	17.29%	17.22%
Leverage ratio.....	7.37%	6.96%	10.33%	9.86%	9.49%

COMMON STOCK AND DIVIDENDS

The Company's common stock is traded in the over-the-counter market. Daily bid and ask quotations are available through the NASDAQ Level III Electronic Billboard under the symbol FCBC. On December 31, 1998, First Community's common stock price was \$29.25, a decrease of 3.9% from the split adjusted December 31, 1997 closing price of \$30.45.

Book value per common share was \$14.50 at December 31, 1998, compared with \$13.85 at December 31, 1997, and \$12.64 at the close of 1996. The year-end market price for First Community common stock of \$29.25 represents 202% of the Company's book value as of the close of the year and reflects total market capitalization of \$205 million. Utilizing the year-end market price and 1998 basic earnings per share, First Community common stock closed the year trading at a price/earnings multiple of 15.73 times 1998 basic earnings per share.

Dividends for 1998 totaled \$1.05 per share, up \$.01 from \$1.04 paid in 1997. The 1998 dividends resulted in a cash yield on year-end market of 3.59%.

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Table 14

	DIVIDENDS PER SHARE				
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	CUMULATIVE
1997	\$0.22	\$0.25	\$0.25	\$0.32	\$1.04
1998	\$0.25	\$0.25	\$0.25	\$0.30	\$1.05

MARKET PRICE AND DIVIDENDS

Table 15

1998	BID		BOOK VALUE PER SHARE	CASH DIVIDENDS PER SHARE
	HIGH	LOW		
First Quarter.....	\$29.60	\$24.48	\$14.18	\$.25
Second Quarter.....	43.00	36.00	14.01	.25
Third Quarter.....	42.75	31.00	14.35	.25
Fourth Quarter.....	33.75	26.50	14.50	.30
				\$1.05

1997				
First Quarter.....	\$23.68	\$21.76	\$12.83	\$.22
Second Quarter.....	26.40	22.60	13.30	.25
Third Quarter.....	28.90	25.40	13.58	.25
Fourth Quarter.....	32.00	26.20	13.85	.32
				\$1.04

NET INTEREST MARGIN

Net interest margin measures net interest income as a percentage of average earning assets. In 1998, net interest margin declined to 4.81% for the year from 5.25% in 1997 and 5.39% in 1996. This decrease was due in large part to a declining asset yield which decreased 26 basis points, largely in the taxable portion of the "available for sale" securities portfolio and short-term investments. During 1998, a larger portion of earning assets was invested in lower yield, short-term investments further reducing the overall asset yield. Increases in the Company's cost of funds during 1997 and 1998 of 10 basis points and 14 basis points, respectively, also had a negative impact on net interest margin. The cost of funds was adversely impacted by branch acquisitions which brought with them a relatively higher cost of funds.

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Table 16

	NET INTEREST MARGIN
1994	5.30%
1995	5.39%
1996	5.39%
1997	5.25%
1998	4.81%

NET INTEREST INCOME

The fundamental source of the Company's earnings, net interest income, is defined as 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.

On a tax equivalent basis, net interest income increased \$726,000 or 1.6% in 1998 and \$5.3 million or 13.1% in 1997. Average earning assets increased 10.9% in 1998 and 16.1% in 1997. These increases were primarily the result of bank and branch acquisitions occurring throughout 1997 which contributed new earning assets and increases in tax equivalent net interest income.

The modest increase in tax equivalent net interest income for 1998 is impacted by the sale of approximately \$14.0 million in credit card revolving loan accounts which reduced interest and fees on loans approximately \$747,000 in 1998. The proceeds of the sale were reinvested in interest bearing balances which yielded substantially lower earnings and, accordingly, reduced current year net interest income. The portfolio sale was part of an overall exit strategy for the credit card division.

Table 17

TAX EQUIVALENT NET INTEREST INCOME

1994	\$36,094
1995	\$37,759
1996	\$40,395
1997	\$45,700
1998	\$46,426

PROVISION FOR LOAN LOSSES

The provision for loan losses represents charges against operations to establish reserves for loan losses inherent in the Company's loan portfolio. The level of expense, as well as the required level of reserves, is dependent upon a number of factors including historical loss ratios by loan type, assessment of specific credit weaknesses within the portfolio, concentrations of credit, assessment of the prevailing economic climate, and other factors which may affect the overall condition of the loan portfolio.

The provision for loan losses was \$6.3 million in 1998, \$5.0 million in 1997 and \$2.3 million in 1996. The increase in the provision for loan losses in 1998 of \$1.3 million was largely the result of a second quarter provision taken in response to a commercial loan foreclosure.

Elevated provisions in both 1997 and 1998 also include higher levels of consumer loan charge-offs in the Company's credit card division and indirect auto financing program. Each of these programs were curtailed in 1998 and losses associated with these types of retail lending are expected to be substantially reduced.

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NON-INTEREST INCOME

Non-interest income consists primarily of fiduciary income on trust services and service charges on deposit accounts. Non-interest income totaled \$11.2 million in 1998, a \$2.5 million increase or 29.1% over the \$8.7 million in 1997 and \$2.1 million or 23.3% improvement over the 1996 totals of \$9.1 million.

Total non-interest revenues from continuing sources increased \$1.04 million between 1996 and 1997 with this increase due largely to the acquisitions of Blue Ridge Bank in 1997 which contributed \$457,000 in other revenues and new branches which added an additional \$179,000. When comparing 1998 with 1997, the full year of Blue Ridge and branches contributed an additional \$509,000 in other operating revenues with non-interest income from continuing sources increasing approximately \$260,000.

Higher levels of non-interest income for 1998 and 1996 include pension curtailment and termination gains of \$1,062,000 (net of federal excise tax of \$764,000) and \$1,450,000, respectively, as a result of the Company's termination of its Defined Benefit Pension Plan, which was completed in the first quarter of 1998.

Included in other operating income for 1998 are gains totaling \$1.2 million on the sale of substantially all revolving loan accounts and all merchant account relationships in the Company's credit card division. The Company's decision to exit this line of business was based on its relatively small share of this market, vigorous competition for credit card accounts and rising consumer delinquencies. At year-end 1998, the Company retained approximately \$2 million in revolving private label credit card accounts.

Service charges on deposit accounts are the largest source of non-interest income. Service charge income totaled \$3.8 million in 1998, an increase of \$457,000 or 13.9% over 1997. This compares with a 10.5% increase of \$313,000 between 1997 and 1996.

Table 18

OTHER SERVICE CHARGES, COMMISSIONS AND FEES
as a Percent of Assets

1994	.248%
1995	.268%
1996	.273%
1997	.286%
1998	.279%

Other service charges, commissions and fees declined slightly in 1998 versus 1997. Alternatively, a 30.5% increase in 1997 of \$696,000 was experienced over 1996 levels. The increase in 1997 is the result of an increased emphasis on fee based revenues throughout the organization as well as the addition of Blue Ridge Bank and branch acquisitions occurring in 1997 which added approximately \$142,000. Other transaction volume also increased in 1997, adding fee revenues of approximately \$614,000.

Fiduciary income continued at a strong level and totaled \$1.7 million in 1998, 1997 and 1996. Trust revenues are comprised of fees for asset management and estate settlement. Expenses associated with the operation of the Trust and Financial Services Division are included in non-interest expense.

NON-INTEREST EXPENSE

Non-interest expenses consist of salaries and benefits, occupancy, equipment and all other operating expense incurred by the Company.

Non-interest expense totaled \$28.8 million in 1998, as compared with \$24.7 million and \$24.4 million in 1997 and 1996, respectively. The substantial increase in 1998 operating costs was attributable to the full year costs of Blue Ridge Bank and the various branches in 1998 versus the partial year of operation in 1997. When comparing 1998 to 1997, the addition of Blue Ridge Bank and branches acquired throughout 1997 added approximately \$956,000 and \$1,268,000, respectively, over their 1997 levels. The total increase in 1997 over 1996 for

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the bank and branch acquisitions was approximately \$3,301,000 and \$722,000, respectively.

In November 1996, the Company detected a "payments system fraud" perpetrated by a business customer and certain of its principals, all of whom were long-term customers of a subsidiary of the Company. The transaction commonly referred to as a "kite" involved the transfer of non-existent funds between a subsidiary bank of the Company and a third party to cover existing overdrafts. The Company recorded associated losses in December of 1996 totaling \$3.4 million. These losses are reflected as a separate line item in non-interest expenses for 1996. The Company expects partial repayment from either the principals or their business interests. Partial repayment in 1997 totaled \$177,000 and is reflected in other operating income. There were no recoveries recognized in 1998.

The nominal increase in total non-interest expense between 1996 and 1997 reflects the net effect of the check collection losses in 1996 and the added operating cost of Blue Ridge Bank (\$3.3 million) and new branches (\$700,000) in 1997. Partially offsetting the cost of operation of new branches in 1997, was the recognition of a \$439,000 credit in lieu of pension expense due to the benefit freeze and pending plan termination and the reversal of \$700,000 in litigation reserves established in 1995 and 1996. The Company was able to reverse the largest portion of \$1.1 million in reserves established to provide for possible losses on litigation which was ultimately settled in the second quarter of 1997 at a total cost of approximately \$460,000.

Salaries and employee benefits increased \$906,000 or 8.0% when comparing 1998 with 1997 and relate almost exclusively to the addition of Blue Ridge and five new branches acquired in 1997. The effect of a full year of operations of these facilities in 1998 versus a partial year in 1997 resulted in additional personnel costs of approximately \$1,118,000 in 1998. Blue Ridge contributed an additional \$521,000 of this total while the branch acquisitions added an additional \$597,000 in 1998. When comparing 1997 to 1996, the increase of approximately \$1.8 million is largely the result of the Blue Ridge and branch acquisitions occurring in 1997 which added an additional \$1,653,000 over 1996. Blue Ridge added an additional \$1,355,000 while the branches added an additional \$298,000 in personnel cost.

Occupancy expense increased \$264,000 or 15.7% between 1998 and 1997. The acquisition of Blue Ridge and new branches in 1997 resulted in additional occupancy cost in 1998 of approximately \$195,000.

The \$323,000 increase (19.7%) in furniture and equipment expense in 1998 reflects not only the impact of acquisitions, which added approximately \$197,000 in additional cost, but also includes depreciation and maintenance associated with the implementation of new check processing technology and the advent of electronic banking services implemented in 1997 and early 1998.

Table 19

NET OVERHEAD RATIO

Year	Ratio
1994	2.51%
1995	2.27%
1996	2.22%
1997	1.84%
1998	2.06%

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 1998, 1997 and 1996 were 2.06%, 1.84% and 2.22%, respectively.

The Company's efficiency ratio also measures management's ability to control costs and maximize revenue growth. The efficiency ratio is computed by dividing non-interest expense by the sum of the net interest income plus non-interest income (all non-recurring items excluded). The efficiency ratio for 1998 was 47.4%. The efficiency ratio for both 1997 and 1996 was 42.2%.

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INCOME TAX EXPENSE

Income tax expense totaled \$6.2 million in 1998, compared with \$6.9 million in 1997 and \$6.5 million in 1996. The major difference between the statutory tax rate and the effective tax rate (income tax expense divided by pre-tax book income) results from income which is 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 1998 was 32.0% as compared with 31.3% for 1997 and 31.9% in 1996.

INVESTMENT SECURITIES

Investment securities are comprised largely of U.S. Agency obligations and state and municipal securities. U.S. Agency obligations include securities issued by various government corporations and agencies, including FHLM, FNMA, GNMA, SLMA, FFBCB, and FHLMC.

Obligations of States and Political Subdivisions totaling \$75.0 million are comprised of high grade municipal securities generally carrying AAA bond ratings, many of which also carry credit enhancement insurance by major insurers of investment obligations.

The average maturity of the investment portfolio increased from 9.08 years in 1997 to 10.05 years in 1998 with the tax equivalent yield increasing from 7.87% at year-end 1997 to 8.38% at the close of 1998. The increase in yield reflects the change in portfolio composition which shifted toward the municipal bond sector.

The investment portfolio totaling \$84.0 million decreased \$25.2 million between 1997 and 1998. This decrease is the result of large prepayments and calls occurring as a result of the declining interest rate environment in 1998. Portions of these cash flows were invested in overnight interest bearing balances with the Federal Home Loan Bank and correspondent banking institutions.

SECURITIES AVAILABLE FOR SALE

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 recorded at market value.

At December 31, 1998, the Company had \$193.2 million in securities available for sale, compared with \$161.8 million at year-end 1997. The increase in this portfolio reflects the reinvestment of funds received from loan principal prepayments arising from early payoffs and calls and maturities of investment securities.

The market value of securities available for sale exceeded book value at year-end 1998 by \$2.1 million. The tax equivalent purchase yield on securities available for sale in 1998 was 6.56% and the tax equivalent purchase yield in 1997 was 6.99%. The 43 basis point decrease in yield on the portfolio is a direct result of a general decline in interest rates which triggered above average calls and prepayments. These prepayments were then invested at prevailing lower market rates along with additional funds derived from reductions in the loan portfolio.

The average maturity of the portfolio was 15.6 years and 11.8 years at December 31, 1998 and 1997, respectively. The extended average maturity reflects an increase in longer term municipal securities as a percentage of the total portfolio as well as the replacement of short-term agency securities with longer term instruments. Most of these longer term securities have call provisions and many are expected to be called prior to their final maturity.

Table 20

LOAN PORTFOLIO

COMMERCIAL, FINANCIAL & AGRICULTURAL	REAL ESTATE - CONSTRUCTION	ALL OTHERS	REAL ESTATE - RESIDENTIAL	REAL ESTATE - COMMERCIAL	LOANS TO INDIVIDUALS
12.6%	1.5%	.1%	37.3%	27.9%	20.6%

LOAN PORTFOLIO

The loan portfolio is diversified among loan types and industry segments as well as geographically. Commercial and commercial real estate loans represent 40.5% of the total portfolio. During 1998, residential real estate loans increased as a percentage of total loans and now comprise 37.3% of the portfolio. Decreases in portfolio sectors were noted in commercial and commercial real estate, which declined by \$37.2 mil-

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lion or 13.0% in 1998. Additionally, consumer loans declined by \$23.0 million or 15.5% from \$148.5 million at December 31, 1997 to \$125.5 million at the close of 1998 and include the reduction due to the aforementioned sale of credit card loans. Consumer loans represent 20.6% and 22.0% of the portfolio at the close of 1998 and 1997, respectively.

Table 21

	LOANS

1994	\$421
1995	\$485
1996	\$548
1997	\$672
1998	\$612

Loans, net of unearned income, were \$611.5 million at year-end 1998. This represents a \$60.3 million decline or 9.0% from the \$671.8 million level at December 31, 1997. During 1998, increased competition for commercial loans by other banks and capital market groups impacted minimum underwriting standards within the industry leading to sub-prime interest rates, higher loan-to-value ratios, and less emphasis on owner guarantees. The Company resisted this easing of price and quality standards and sacrificed some existing and new loan business in the process. This shift in underwriting standards coupled with the declining interest rate environment resulted in above average principal prepayments and contributed to the decline in the loan portfolio.

In addition to loan prepayments, the sale of substantially all credit card loans in the third and fourth quarters of 1998 resulted in an additional \$14 million reduction in the loan portfolio.

The loan-to-deposit ratio decreased to 70% at December 31, 1998 from 75% at December 31, 1997. The reduction in the loan-to-deposit ratio is a result of the decline noted in the loan portfolio and a \$22.5 million increase in total deposits.

RESERVE FOR LOAN LOSSES

The reserve for loan losses represents reserves available to absorb estimated loan losses and other credit-related charges. Loan losses arise primarily from the loan portfolio, but may also be derived from other sources, including commitments to extend credit, guarantees, and standby letters of credit. The reserve for loan losses is increased by both 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, in management's judgment, is considered adequate to absorb potential losses inherent in the loan portfolio. Management performs monthly assessments to determine the appropriate level of the reserve. The factors considered in this evaluation include, but are not necessarily limited to, estimated 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 reserves to various portfolio segments, the allowance is general in nature and is available for the entire portfolio.

The reserve for loan losses represents 140% of non-performing loans at year-end 1998 versus 79% and 144% at December 1997 and 1996, respectively. When other real estate is combined with non-performing loans, reserves equal 98% of non-performing assets at the end of 1998 versus 72% and 106% at December 31, 1997 and 1996, respectively.

Net charge-offs were \$5.3 million in 1998, as compared with \$4.5 million in 1997 and \$1.6 million in 1996, respectively. The \$3.8 million increase in net charge-offs for 1998 is principally related to the commercial loan charge-off of \$2.9 million on a loan relationship to a failed furniture assembly plant in Princeton, West Virginia in the second quarter of 1998.

Net charge-offs for 1997 were elevated, due in part, to retail loan losses of \$955,000 and \$468,000 in the credit card and indirect auto loan areas, respectively, as well as a large single commercial loan charge-off of \$800,000 on a car dealer floor plan arrangement.

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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. Total non-performing assets were \$11.7 million at December 31, 1998. The levels of non-performing assets for the last five years are presented in the table below.

Table 22

	DECEMBER 31				
	1998	1997	1996	1995	1994
Non-accruing Loans.....	\$ 7,763	\$ 9,988	\$5,476	\$4,371	\$6,909
Loans 90 Days Past Due.....	377	4,391	780	673	968
Other Real Estate Owned.....	3,547	1,472	2,225	929	919
	\$11,687	\$15,851	\$8,481	\$5,973	\$8,796
Non-performing loans as a percentage of total loans.....	1.3%	2.1%	1.1%	1.0%	1.9%
Non-performing assets as a percentage of total loans and other real estate owned....	1.9%	2.4%	1.6%	1.2%	2.1%
Reserve for loan losses as a percentage of non-performing loans.....	140.1%	79.3%	143.7%	165.0%	107.6%
Reserve for loan losses as a percentage of non-performing assets.....	97.6%	72.0%	106.0%	139.3%	96.4%

Non-performing assets decreased \$4.2 million between 1997 and 1998 with decreases in both ninety days past due and non-accrual loans. An increase was reflected in other real estate owned during 1998 as a result of the acquisitions of a furniture manufacturing facility in southern West Virginia and a townhouse project in northern West Virginia. These acquisitions resulted in additional other real estate owned in the amounts of \$1.5 million and \$500,000, respectively. The manufacturing property is presently under contract to sell and the townhouse project is providing rental income until the units are sold. No losses are anticipated from the sale of these properties.

DEPOSITS

Total deposits at December 31, 1998 increased \$22.5 million or 2.6% when compared to December 31, 1997. The increase in deposits is the result of \$20.1 million and \$9.6 million increases in demand and interest bearing demand deposits, respectively. Slight decreases were realized in other savings deposit categories. In 1998, the average rate paid on interest bearing liabilities was 4.5%, up from 4.4% in 1997. The increase in the Company's cost of funds is the result of competition for deposits among both financial institutions and non-bank financial service providers and the addition of new branches in late 1997 with relatively higher costs of funds. These factors lead to an increase in the overall cost of funds despite a general decline in market interest rates during the year.

Average deposits totaled \$870.8 million for 1998 versus \$759.4 million in 1997. The largest increase in average deposits was experienced in

interest-bearing demand deposits, which increased 20.7% versus an overall increase of 14.7%. Non-interest bearing demand deposits increased 11.5% with a 16.8% increase experienced on average time deposits. Average savings deposit accounts also increased 6.3%.

SHORT-TERM BORROWINGS

The Company's short-term borrowings consist primarily of Federal Funds purchased and securities sold under agreements to repurchase. This category of funding is a source of moderately priced short-term funds. Short-term borrowings decreased on average \$8.0 million or 13.5% from 1997 following a 8.4% decrease between 1997 and 1996. The decrease in average balances in 1998 is the result of the increased liquidity in 1998. Strong liquidity in 1998 eliminated the need to purchase federal funds and reduced the emphasis on short-term funding through customer repurchase agreements.

OTHER INDEBTEDNESS

Other indebtedness, which represents long-term advances from the Federal Home Loan Bank (FHLB) and acquisition debt to a correspondent bank decreased by \$6.3 million in 1998. The decrease is attributable to the maturity of \$5.0 million of FHLB debt and principal repayments on acquisition debt.

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STOCKHOLDERS' EQUITY

Risk-based capital ratios are a measure of the Company's capital adequacy. At December 31, 1998, the Company's Tier I capital ratio was 12.0% compared with 10.70% in 1997. Risk-based capital ratios and the leverage ratio are used by banking regulators to measure the capital adequacy of banking institutions. Risk-based capital guidelines risk weight balance sheet assets and off-balance sheet commitments in determining capital adequacy. The Company's total risk-based capital-to-asset ratio was 13.25% at the close of 1998 compared with 11.96% in 1997. Both of these ratios are well above the current minimum level of 8% prescribed for bank holding companies.

Table 23

	RISKED-BASED CAPITAL	
	REGULATORY MINIMUM	RISK-ADJUSTED ASSETS
1994	8.00%	17.22%
1995	8.00%	17.29%
1996	8.00%	17.02%
1997	8.00%	11.96%
1998	8.00%	13.25%

The leverage ratio is the measurement of total tangible equity to total assets. The Company's leverage ratio at December 31, 1998 was 7.37%, compared to 6.96% at December 31, 1997, both of which are well above the minimum 3% and the recommended 4% to 5% range prescribed by the Federal Reserve.

LIQUIDITY

Liquidity represents the Company's ability to respond to demands for funds and is usually derived from maturing investment securities, overnight investments, periodic repayment of loan principal, and from 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 which have been established at financial institutions to meet cash needs.

Total liquidity of \$462.7 million at December 31, 1998 is comprised of the following: cash on hand and deposits with other financial institutions of \$91.5 million; securities available for sale of \$193.2 million; investment securities held to maturity due within one year of \$3.9 million; federal funds sold of \$25.6 million; and Federal Home Loan Bank credit availability of \$148.5 million.

INTEREST RATE SENSITIVITY

Net interest income, the Company's primary component of operational revenue, is subject to variation as a result of changes in interest rate environments in conjunction with unbalanced repricing opportunities in 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 Company uses an earnings simulation model to measure interest rate sensitivity. The model 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 and based upon the latest simulation, the Company believes that it is currently asset sensitive. Asset sensitive positions can positively impact net interest income in a rising rate environment or, alternatively, adversely impact net interest income in a falling rate environment.

The Company has established policy limits for tolerance of interest rate risk which allows for no more than a ten percent reduction in projected net interest income based on quarterly income simulations. Based on the most recent simulation, the

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Company believes that its current exposure to interest rate risk does not exceed this policy limit. In the simulation's most likely scenario which incorporates relatively little change in the treasury yield curve and a 25 basis point drop in the prime lending rate in the second quarter of 1999, net interest income could potentially increase by as much as 4% over 1998 with effective management of key deposit interest rates.

YEAR 2000 PREPAREDNESS

The arrival of January 1, 2000 is expected to cause disruption in computer systems (hardware, software and imbedded chips) with two-digit year fields, which cannot distinguish between the years 1900 and 2000. First Community Bancshares, Inc. and its affiliates have established an oversight committee to direct and monitor its Year 2000 readiness project. As of December 31, 1998 and the date of this report, the project is ongoing and is nearing the completion of the testing phase. The principal purpose of the project is to address issues or potential issues involving computer programs and imbedded computer chips which may be unable to distinguish between the Year 1900 and the Year 2000. The Project Committee is comprised of key management and operational personnel from throughout the Company. This Committee, appointed by the Company's Board of Directors, has full authority to direct resources as necessary to ensure that project objectives are achieved and completed within prescribed time frames and well in advance of the millennium date change. The Committee has completed its work in the awareness and assessment phases by identifying those computer systems which the Company uses to process important information, and those other systems which may have imbedded computer chips which are subject to Year 2000 problems. The Committee prioritized all such systems and identified a group of "mission critical" systems.

In order to determine the Company's exposure due to potential third-party Year 2000 problems, the oversight committee coordinated the risk assessment of significant loan relationships and suppliers to evaluate the state of readiness of these entities and their ability to deal with Year 2000 problems. The remediation phase involves upgrading or replacing of hardware, software and other systems which could be affected by Year 2000 problems. This phase is complete for all mission critical systems and the testing process is underway on these renovated systems and mission critical systems provided by third parties which are certified as Year 2000 compliant.

Testing for mission critical systems, including the Company's Comprehensive Banking System, items processing, the Federal Reserve On-Line Exchange, the Trust accounting system, and the ATM Management system has been completed. Testing for other mission critical systems including loan and deposit origination platform systems is underway and is scheduled to be complete by March 31, 1999. Additional testing for vendor-provided releases on these systems will be necessary throughout 1999 as these releases are made available.

Other systems which are not considered mission critical remain in the remediation phase with completion of remediation and testing planned for the second quarter of 1999.

RISKS

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely effect the Company's results of operations, liquidity and financial condition. For example, if significant loan customers experience severe Year 2000 problems, their ability to repay their loan obligations in a timely manner would be adversely affected. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of certain third party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. Completion of the Year 2000 project is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 compliance and readiness of its material external agents and customers. The Company believes that with the remediation of existing systems and with the implementation of new business systems and completion of the project as scheduled, the possibility of significant interruptions of normal operations should be reduced.

COSTS

The Company's budgeted total cost of the Year 2000 project is approximately \$150,000. The total amount expended on the project through the date of this report, exclusive of administration, is approximately \$47,000 and includes the cost of salary and overtime for existing operations and Information Systems staff in the assessment, testing, and verifica-

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tion of systems. Additional costs of \$30,000 are estimated to have been incurred to date in administration and committee meeting bringing total costs to \$77,000. The total remaining cost of the Year 2000 project is estimated at \$103,000. Approximately \$75,000 is for new software and hardware purchases. As of the date of this report, the Company has spent only 31% of its direct budget for the project despite the fact that it is nearing completion of all phases for mission critical systems. Hardware replacement and minor software replacement in the second quarter will bring expenditures more closely in line with the overall project percentage of completion.

The cost of the project, the dates on which the Company plans to complete Year 2000 modifications, and the impact of third party compliance are based on management's best estimates which were derived utilizing certain assumptions as to future events including the availability of outside resources, cooperation from third parties and external agents of the Company as well as the level of Year 2000 readiness by various vendors and customers. Some of these assumptions involve contingencies which are beyond the control of the Company. Accordingly, the actual cost and impact of Year 2000 problems which the company may experience, particularly those caused by third-party difficulties, can only be estimated at this time.

CONTINGENCY PLANNING

The Company has developed a contingency plan for mission critical systems designed to allow it to avoid significant business interruption in the event current systems are affected by Year 2000 issues. This Contingency Plan involves the maintenance of alternate processing sites, acquisition and development of additional human resources which will be prepared for additional remediation, if necessary, throughout 1999 and in January 2000, as well as the development of alternate manual procedures which can be employed as back-up processes for existing automated business processes. The Contingency Plan was completed and approved by the Board of Directors in February 1999. Testing of the Plan will be completed early in the second quarter of 1999 and the Plan will be revised as necessary throughout 1999.

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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Share Data)

Table 25

	DECEMBER 31	
	1998	1997
ASSETS		
Cash and due from banks.....	\$ 33,961	\$ 34,590
Interest bearing balances -- FHLB.....	57,523	145
Federal funds sold.....	25,630	12,406
Securities available for sale (amortized cost of \$191,131, 1998; \$159,711, 1997).....	193,194	161,795
Investment securities held to maturity:		
U.S. Treasury securities.....	100	4,098
U.S. Government agencies and corporations.....	7,546	26,377
States and political subdivisions.....	75,009	77,641
Other securities.....	1,361	1,058
Total investment securities (market value, \$88,256, 1998; \$112,263, 1997).....	84,016	109,174

Total loans, net of unearned income.....	611,493	671,817
Less reserve for loan losses.....	11,404	11,406
Net loans.....	600,089	660,411
Premises and equipment.....	17,986	19,133
Other real estate owned.....	3,547	1,472
Interest receivable.....	7,030	7,688
Other assets.....	6,684	9,734
Intangible assets.....	24,346	25,774
TOTAL ASSETS.....	\$1,054,006	\$1,042,322

LIABILITIES

Deposits:		
Demand.....	\$ 123,992	\$ 103,846
Interest-bearing demand.....	137,169	127,541
Savings.....	148,461	149,407
Time.....	466,374	472,713
Total deposits.....	875,996	853,507
Interest, taxes and other liabilities.....	10,417	11,455
Federal funds purchased.....	--	2,705
Securities sold under agreements to repurchase.....	47,680	52,351
Other indebtedness.....	18,176	24,444
TOTAL LIABILITIES.....	952,269	944,462

STOCKHOLDERS' EQUITY

Common stock, \$1 par value in 1998 and 1997, 10,000,000 shares authorized; 7,193,909 shares issued in 1998 and 1997, respectively; 7,014,042 and 7,063,655 shares outstanding in 1998 and 1997, respectively.....	7,194	7,194
Additional paid-in capital.....	36,122	36,122
Retained earnings.....	60,250	54,564
Treasury stock, at cost.....	(1,403)	(1,271)
Unallocated ESOP shares.....	(1,664)	--
Accumulated other comprehensive income.....	1,238	1,251
TOTAL STOCKHOLDERS' EQUITY.....	101,737	97,860
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$1,054,006	\$1,042,322

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Amounts in Thousands, Except Share and Per Share Data)

Table 26

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
INTEREST INCOME			
Interest and fees on loans.....	\$62,323	\$59,753	\$50,553
Interest on securities available for sale.....	9,060	9,128	7,556
Interest on investment securities:			
U.S. Treasury securities.....	117	337	778
U.S. Government agencies and corporations.....	1,034	2,333	3,307
States and political subdivisions, tax exempt.....	3,989	3,205	2,520
Other securities.....	90	85	82
Interest on federal funds sold.....	1,594	949	117
Interest on deposits in banks.....	3,006	44	28
TOTAL INTEREST INCOME.....	81,213	75,834	64,941
INTEREST EXPENSE			
Interest on deposits.....	34,374	28,773	23,158
Interest on short-term borrowings.....	2,395	2,623	2,898
Interest on other indebtedness.....	1,459	1,494	877
TOTAL INTEREST EXPENSE.....	38,128	32,890	26,933
NET INTEREST INCOME.....	43,085	42,944	38,008
Provision for loan losses.....	6,250	4,963	2,273
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	36,835	37,981	35,735
NON-INTEREST INCOME			
Fiduciary income.....	1,682	1,678	1,731
Service charges on deposit accounts.....	3,746	3,289	2,976
Other service charges, commissions and fees.....	2,935	2,979	2,283
Net securities (losses) gains.....	25	6	(128)
Other operating income.....	1,732	709	758
Pension termination gain.....	1,962	--	1,450
TOTAL NON-INTEREST INCOME.....	11,182	8,661	9,070
NON-INTEREST EXPENSE			
Salaries and employee benefits.....	12,242	11,336	9,580
Occupancy expense of bank premises.....	1,943	1,679	1,596
Furniture and equipment expense.....	1,965	1,642	1,212
Check collection losses.....	--	--	3,365
Goodwill and core deposit amortization.....	2,061	1,379	335
Other operating expense.....	10,541	8,636	8,290
TOTAL NON-INTEREST EXPENSE.....	28,752	24,672	24,358
Income before income taxes.....	19,265	21,970	20,447
Income tax expense.....	6,164	6,876	6,530
NET INCOME.....	\$13,101	\$15,094	\$13,917
Other comprehensive (loss) income, net of tax.....	(13)	818	41
Comprehensive income.....	\$13,088	\$15,912	\$13,958
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING.....	7,040,437	7,063,033	7,028,349
BASIC AND DILUTED EARNINGS PER COMMON SHARE.....	\$1.86	\$2.14	\$1.98

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOW
(Amounts in Thousands)

Table 27

YEARS ENDED DECEMBER 31

	1998	1997	1996
OPERATING ACTIVITIES			
Cash flows from operating activities:			
Net income	\$ 13,101	\$ 15,094	\$ 13,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	6,250	4,963	2,273
Depreciation of premises and equipment	1,514	1,192	856
Amortization of intangibles	1,915	647	625
Net investment amortization and accretion	32	(332)	271
Net (gain) loss on the sale of assets	(1,375)	(103)	12
Decrease (increase) in interest receivable	658	(358)	285
Decrease (increase) in other assets	2,958	1,046	(3,323)
Decrease in other liabilities	(1,033)	(2,857)	(887)
Other, net	88	(51)	(274)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,108	19,241	13,755
INVESTING ACTIVITIES			
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	--	18	15,868
Proceeds from maturities and calls of securities available for sale	100,920	24,762	14,771
Proceeds from maturities and calls of investment securities	25,488	26,509	27,723
Proceeds from sale of credit card loans	15,590	--	--
Purchase of securities available for sale	(132,381)	(35,090)	(45,641)
Purchase of investment securities	(300)	(26,447)	(2,915)
Net decrease (increase) in loans made to customers	37,664	(27,014)	(64,044)
Cash provided by branch acquisitions, net	--	39,658	18,735
Purchase of premises and equipment	(726)	(2,018)	(439)
Proceeds from sale of equipment	287	16	159
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	46,542	394	(35,783)
FINANCING ACTIVITIES			
Cash flows from financing activities:			
Net increase (decrease) in demand and savings deposits	28,556	(8,507)	(10,328)
Net (decrease) increase in time deposits	(6,351)	30,398	10,263
Net (decrease) increase in short-term debt	(7,376)	(23,443)	28,294
Repayment of long-term debt	(7,768)	(2,412)	(10)
Proceeds from long-term borrowings	1,500	11,500	--
Acquisition of treasury stock	(1,796)	--	(170)
Reissuance of treasury stock	--	17	1,499
Cash paid in lieu of fractional shares	(27)	(22)	--
Dividends paid	(7,415)	(7,345)	(6,422)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(677)	186	23,126
CASH AND CASH EQUIVALENTS			
Net increase in cash and cash equivalents	69,973	19,821	1,098
Cash and cash equivalents at beginning of year	47,141	27,320	26,222
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 117,114	\$ 47,141	\$ 27,320

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in Thousands, Except Share and Per Share Information)

Table 28

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	UNALLOCATED ESOP SHARES	ACCUMULATED OTHER COMPREHENSIVE INCOME
BALANCE, DECEMBER 31, 1995	\$ 30,217	\$13,128	\$39,320	\$(2,646)	\$ --	\$ 392
Net income	--	--	13,917	--	--	--
Common dividends declared (\$.91 per share)	--	--	(6,422)	--	--	--
Purchase of 6,375 treasury shares at \$26.80 per share	--	--	--	(170)	--	--
Reissuance of 62,286 treasury shares at \$24.06 per share	--	(29)	--	1,528	--	--
Comprehensive income, net of tax	--	--	--	--	--	41
BALANCE, DECEMBER 31, 1996	30,217	13,099	46,815	(1,288)	--	433
Net income	--	--	15,094	--	--	12
Common dividends declared (\$1.04 per share)	--	--	(7,345)	--	--	--
Change from \$5.00 par value to \$1.00 par value	(23,023)	23,023	--	--	--	--
Reissuance of 727 treasury shares at \$23.70 per share	--	--	--	17	--	--
Comprehensive income, net of tax	--	--	--	--	--	818
BALANCE, DECEMBER 31, 1997	7,194	36,122	54,564	(1,271)	--	1,251
Net income	--	--	13,101	--	--	--
Common dividends declared (\$1.05 per share)	--	--	(7,415)	--	--	--
Purchase 44,731 ESOP shares at a weighted cost of \$37.20 per share	--	--	--	--	(1,664)	--
Purchase 4,125 treasury shares at \$31.87 per share	--	--	--	(132)	--	--
Comprehensive income, net of tax	--	--	--	--	--	(13)
BALANCE, DECEMBER 31, 1998	\$ 7,194	\$36,122	\$60,250	\$(1,403)	\$(1,664)	\$1,238

See Notes to Consolidated Financial Statements.

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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 generally accepted accounting principles 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. In the Parent Company financial statements, the investment in subsidiaries is stated at equity in the net assets of such subsidiary increased by the unamortized portion of the excess of fair value over the cost of net assets acquired, where applicable.

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 market value. Unrealized appreciation or depreciation in market value above or below amortized cost is included in stockholders' equity net of income taxes which is entitled "Other Comprehensive Income." Premiums and discounts are amortized to expense or accreted to income over the lives of the securities. Gain or loss on sale is based on the specific identification method.

INVESTMENT SECURITIES

Investments in debt securities which management has the ability and intent to hold to maturity or on a long-term basis 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 on the specific identification method. At December 31, 1998 and 1997, no securities were held for trading purposes and no trading account was maintained.

RESERVE FOR LOAN LOSSES

The reserve for loan losses is available to absorb future loan charge-offs. The allowance is increased by provisions charged to operations and reduced by losses, net of recoveries. The amount charged to operations is based on several factors including: (1) analytical reviews of significant commercial and commercial mortgage loans and loan loss experience in relationship to outstanding loans; (2) a continuing review of loans evaluated by the loan review process as less than satisfactory, all non-performing loans and overall portfolio quality; (3) regular examinations and appraisals of the loan portfolio conducted by federal and state supervisory authorities; and (4) management's judgment with respect to current and expected economic conditions, 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, changes in lending management, and any concentration of credit in certain industries or geographic areas.

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In 1995, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan," which requires an allowance to be established as a component of the reserve for loan losses for certain loans (using the discounted 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. Management reviews the impairment status of all loans designated as non-accrual or which have been classified as "substandard" or "doubtful" by the Company's loan review process. Management does not individually evaluate certain smaller balance, homogeneous loans, such as consumer installment loans and residential mortgage loans for impairment. These loans are evaluated on an aggregate basis using a formula-based approach in accordance with the Company's policy. All of the loans deemed to be impaired were evaluated using the fair value of the collateral as the measurement standard.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation of both buildings and improvements as well as for equipment is computed on the straight-line method over estimated useful lives. Maintenance and repairs are charged to current operations while betterments are capitalized. Disposition gains and losses are reflected in current operations.

Long-lived assets to be held and those to be disposed of and certain intangibles are evaluated for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets or for Long-Lived Assets to be Disposed of".

INCOME ON LOANS

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 their 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. Credit card loans which become 180 days past due are automatically charged to the reserve for possible loan losses.

LOAN FEE INCOME

Loan origination fees are recorded as a reduction of direct costs associated with loan processing, including salaries, review of legal documents, obtaining of appraisals, and other direct costs. Fees in excess of those related 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 market value less estimated costs to sell. Loan losses arising from the acquisition of such properties are charged against the reserve 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. General reserves for loss on the disposition of other real estate are established through charges against current operations.

UNALLOCATED ESOP SHARES

The cost of unallocated employee stock ownership plan shares are included as a component of stockholders' equity. The plan shares will be allocated to participant accounts over a period not to exceed seven years based upon relative employee compensation.

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INTANGIBLE ASSETS

The investment in subsidiaries and branches in excess of amounts attributable to tangible and identified intangible assets at dates of acquisition is recorded as goodwill and is being amortized to operations over a period of fifteen years using the straightline method. The unamortized balance of goodwill was \$23,684,000 and \$24,986,000 at December 31, 1998 and 1997, respectively. A portion of the cost of purchased subsidiaries 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 which range from

seven to ten years. The unamortized balance of identified intangibles associated with acquired deposits was \$662,000 and \$788,000 at December 31, 1998 and 1997, respectively.

INCOME TAXES

The Company accounts for taxes using the provisions of SFAS No. 109, "Accounting for Income Taxes," which, under the asset and liability method, provides deferred income taxes which 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 bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

RECLASSIFICATIONS

Certain amounts included in the 1997 and 1996 financial statements have been reclassified to conform with the presentation used in preparation of the 1998 financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standard (SFAS) No. 131 was issued in June 1997. SFAS No. 131 established standards for the way that public business enterprises report information about different operating segments. This Statement is effective for fiscal years beginning after December 15, 1997 and need not be applied to interim financial statements in the initial year of application. First Community Bancshares, Inc. currently operates only one segment which represents bank financial services.

Statement of Financial Accounting Standard (SFAS) No. 132 was issued in February 1998. SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits in order to provide information that is more comparable, understandable and concise. This statement supersedes the disclosure requirements in several other Financial Accounting Standards Board statements. The Statement is effective for fiscal years beginning after December 15, 1997.

Statement of Financial Accounting Standard (SFAS) No. 133 was issued in June 1998. SFAS No. 133 sets forth a comprehensive approach to addressing the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This standard addresses the type of activities which are included within the definition of derivatives and imbedded derivatives and identifies the methods to be used for valuation and income recognition. In addition to the derivative and hedging activities addressed, the standard also allows a one time transfer of securities from the held-to-maturity to the available-for-sale or the trading category which can only be applied at the date of initial application of the Statement. This Statement is effective for all fiscal quarters of all fiscal years beginning after June 15, 1998. Earlier application of the provisions of this Statement is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after issuance of this Statement. Management is currently in the process of evaluating the impact of this Statement.

In October 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 134. This Statement addresses the Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. This Statement amends FASB Statements No. 65 and No. 115. This Statement is effective for the first fiscal

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quarter beginning after December 15, 1998. The provisions of this Statement are not currently applicable to the business or operations of the bank.

CASH FLOWS

In 1998, 1997 and 1996 for purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold, and interest bearing balances available for immediate withdrawal. Interest and income taxes paid in 1998, 1997 and 1996 were as follows:

Table 29

	1998	1997	1996
	-----	-----	-----
	(Amounts in Thousands)		
Interest.....	\$38,267	\$32,726	\$26,615
Income taxes.....	6,744	6,433	7,911
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS			
Transfers of loans to other real estate owned.....	\$ 3,588	\$ 862	\$ 2,190
Unrealized loss (gain) on securities available for sale.....	21	(1,375)	(69)

NOTE 2. MERGER AND ACQUISITIONS

On July 3, 1996, First Community acquired Citizens Bank of Tazewell (Citizens), headquartered in Tazewell, Virginia. As of the merger date, Citizens had approximately \$52.2 million in total assets and \$46.2 million in total deposits. Pursuant to the Agreement and Plan of Merger, First Community exchanged 3.51 shares of its common stock for each share of Citizens' common stock, which totaled 263,159 shares upon consummation.

This transaction was accounted for as a pooling of interests. The pooling of interests method requires the combining of the financial information of the merging companies as though they had always been combined. Consequently, the results of operations of First Community and Citizens for 1996 has been restated to properly reflect this combination.

On April 9, 1997, the Company acquired 100% of the common stock of Blue Ridge Bank (Blue Ridge), headquartered in Sparta, North Carolina. Blue Ridge had a \$105 million state-chartered bank with offices located in Sparta, Elkin, Hays and Taylorsville, North Carolina. Pursuant to the Agreement and Plan of Merger, the Company exchanged cash of \$19.50 for each of Blue Ridge's 1,212,148 common shares. In conjunction with the acquisition, Blue Ridge canceled outstanding stock options through the payment of \$727,948 representing the difference between \$19.50 and the respective option prices. Total consideration, including the payment for cancellation of the options, was \$24.4 million and resulted in an intangible asset of approximately \$14.1 million which is being amortized over a 15-year period. The acquisition was partially funded with loan proceeds of \$11.5 million which the Company borrowed from an outside source. The acquisition was accounted for under the purchase method of accounting. Accordingly, results of operations of Blue Ridge are included in consolidated results from the date of acquisition. Subsequent to the merger, Blue Ridge operates as a wholly-owned subsidiary of First Community.

On July 24, 1997, the Company expanded its Virginia operations through the acquisition of three bank branches located in Fort Chiswell, Pound, and Clintwood. The acquisition of these branches added \$44 million in new deposits and assets to the existing Virginia subsidiary. The branch acquisitions were accounted for under the purchase method of accounting. Accordingly, the results of operations of the branches are included in consolidated results only from the date of acquisition. The excess purchase price of the branches, over the fair value of tangible assets acquired, totaled \$4.6 million and is being amortized over a 15-year period.

At the close of business on September 26, 1997, First Community Bank, Inc., a subsidiary of the Company, acquired the Man, West Virginia branch of Huntington National Bank. The acquisition of this branch added approximately \$51 million in deposits. The intangible value of this transaction totaled approximately \$4.9 million which is being amortized over a 15-year period. This acquisition was accounted for under the purchase method of

accounting; therefore, the operations of the Man branch are included in consolidated results of operations only from the date of acquisition.

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The following unaudited proforma financial information shows the effect of the Blue Ridge acquisition as if the transaction were consummated on January 1, 1996.

FIRST COMMUNITY BANCSHARES, INC.

Proforma Unaudited Supplemental Financial Information
(Amounts in thousands except per share data)

Table 30

	1997	1996
Net Interest Income.....	\$43,665	\$41,709
Net Income.....	15,078	13,958
Basic and diluted Earnings Per Common Share.....	2.14	1.98

NOTE 3. SECURITIES AVAILABLE FOR SALE

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

Table 31

	1998			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(Amounts in Thousands)			
U.S. Government agency securities.....	\$119,236	\$ 713	\$ (441)	\$119,508
States and political subdivisions.....	36,458	1,470	(585)	37,343
Other securities.....	35,437	915	(9)	36,343
Total.....	\$191,131	\$3,098	\$(1,035)	\$193,194

Table 32

	1997			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(Amounts in Thousands)			
U.S. Government and agency securities.....	\$131,892	\$1,127	\$ (273)	\$132,746
States and political subdivisions.....	21,668	926	(18)	22,576
Other securities.....	6,151	322	--	6,473
Total.....	\$159,711	\$2,375	\$(291)	\$161,795

Securities available for sale with market values of \$65,421,000 and \$64,454,000 at December 31, 1998 and 1997, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and other short-term borrowings and for other purposes.

The amortized cost and market value of securities available for sale at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. During 1997, sales of securities available for sale resulted in gains of \$6,000. During 1996, the sale of securities available for sale resulted in gains of \$90,000 and losses of \$225,000. There were no sales of securities available for sale during 1998. During 1998, calls of securities available for sale resulted in a gain of approximately \$4,000. The proceeds from sales of securities available for sale were \$18,000 and \$19,868,000 for 1997 and 1996, respectively. The basis for evaluating the gain or loss realized is the amortized cost. The following table

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presents maturities of investments securities available for sale by type on both an amortized cost and market value basis at December 31, 1998:

Table 33

	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.....	\$ 2,000	\$ 280	\$ --	\$ 2,280	6.42%
After one year through five years.....	10,416	1,616	--	12,032	6.06%
After five years through ten years.....	26,343	9,931	29,073	65,347	6.79%
After ten years.....	80,477	24,631	6,364	111,472	6.49%
Total book value.....	\$119,236	\$36,458	\$35,437	\$191,131	
Tax equivalent purchase yield.....	6.30%	8.05%	5.94%	6.56%	
Average maturity (in years).....	17.21	13.25	12.52	15.59	
MARKET VALUE					
Maturity:					
Within one year.....	\$ 2,012	\$ 284	\$ --	\$ 2,296	
After one year through five years.....	10,402	1,663	--	12,065	
After five years through ten years.....	26,813	10,622	29,360	66,795	
After ten years.....	80,281	24,774	6,983	112,038	
Total market value.....	\$119,508	\$37,343	\$36,343	\$193,194	

NOTE 4. INVESTMENT SECURITIES

The amortized cost and approximate market values of investment securities as of December 31 are as follows:

Table 34

	1998			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE

(Amounts in Thousands)

U.S. Treasury securities.....	\$ 100	\$ 1	\$ --	\$ 101
U.S. Government agencies and corporations.....	7,546	50	(16)	7,580
States and political subdivisions.....	75,009	4,191	--	79,200
Other securities.....	1,361	14	--	1,375
Total.....	\$ 84,016	\$ 4,256	\$ (16)	\$ 88,256

Table 35

1997

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
(Amounts in Thousands)				
U.S. Treasury securities.....	\$ 4,098	\$ 1	\$ (8)	\$ 4,091
U.S. Government agencies and corporations.....	26,377	115	(114)	26,378
States and political subdivisions.....	77,641	3,081	(2)	80,720
Other securities.....	1,058	18	(2)	1,074
Total.....	\$109,174	\$3,215	\$ (126)	\$112,263

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Various investment securities with an amortized cost of approximately \$27,875,000 and \$34,871,000, respectively, were pledged at December 31, 1998 and 1997 to secure public deposits and for other purposes required by law. During 1998, calls of held-to-maturity investment securities resulted in gains of \$21,000. There were no gains from calls of investment securities held-to-maturity during 1997. Proceeds from the calls of held-to-maturity investment securities were \$1,020,700 and \$1,950,000 during 1998 and 1997, respectively. The following table presents maturities of investments by type on both an amortized cost and market value basis at December 31, 1998:

Table 36

	U.S. TREASURY	U.S. GOVERNMENT AGENCIES & CORPORATIONS	STATES & POLITICAL SUBDIVISIONS	OTHER SECURITIES	TOTAL	TAX EQUIVALENT PURCHASE YIELD
(Amounts in Thousands)						
AMORTIZED COST						
Maturity:						
Within one year.....	\$ --	\$2,524	\$ 1,377	\$ --	\$ 3,901	7.43%
After one year through five years.....	100	3,151	2,516	1,061	6,828	6.79%
After five years through ten years.....	--	1,417	25,538	300	27,255	8.22%
After ten years.....	--	454	45,578	--	46,032	8.79%
Total amortized cost.....	\$100	\$7,546	\$75,009	\$1,361	\$84,016	
Tax equivalent purchase yield.....	6.01%	6.00%	6.63%	7.76%	6.38%	
Average maturity (in years).....	1.5	3.00	10.86	5.02	10.05	
MARKET VALUE						
Maturity:						
Within one year.....	\$ --	\$2,530	\$ 1,399	\$ --	\$ 3,929	
After one year through five years.....	101	3,157	2,567	1,075	6,900	
After five years through ten years.....	--	1,427	26,970	300	28,697	
After ten years.....	--	466	48,264	--	48,730	
Total market value.....	\$101	\$7,580	\$79,200	\$1,375	\$88,256	

NOTE 5. LOANS

Loans consist of the following at December 31:

Table 37

	1998	1997
(Amounts in Thousands)		
Real estate -- commercial.....	\$170,669	\$202,625
Real estate -- construction.....	8,988	9,612
Real estate -- residential.....	226,218	227,465
Commercial, financial and agricultural.....	77,233	82,445
Loans to individuals for household and other consumer expenditures.....	125,491	148,485
All other loans.....	894	1,185
	\$611,493	\$671,817

Banking subsidiaries of the Company are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their 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 in excess of 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.

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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 counterpart. 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, 1998.

Financial instruments whose contract amounts represent credit risk at December 31, 1998 are commitments to extend credit (including availability of lines of credit and undrawn credit card availability) -- \$85.9 million, and standby letters of credit and financial guarantees written -- \$2.8 million. At December 31, 1998, neither the Company nor its subsidiaries have any amounts outstanding representing futures, forward exchange contracts or interest swaps.

In the normal course of business, the Company originates loan commitments. 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. The total commitments outstanding at December 31, 1998 are summarized as follows:

Table 38

	1998	
	NOTIONAL AMOUNT	RATE
(Amounts in Thousands)		
Real estate -- commercial (fixed).....	\$ 3,159	7.50 - 10.50%
Real estate -- commercial (variable).....	15,986	5.75 - 12.00%
Real estate -- construction (fixed).....	2,145	8.49 - 9.50%
Real estate -- construction (variable).....	2,327	7.75 - 9.75%
Real estate -- residential (fixed).....	2,241	7.00 - 12.50%
Real estate -- residential (variable).....	6,611	7.75 - 12.75%
Commercial, financial, agricultural (fixed).....	6,660	6.05 - 16.00%
Commercial, financial, agricultural (variable).....	18,632	5.75 - 13.00%
Loans to individuals for household and other consumer expenditures (fixed).....	29,584	6.30 - 18.00%
Loans to individuals for household and other consumer expenditures (variable).....	1,326	7.41 - 14.50%
Other (fixed).....	30	7.11 - 9.50%
TOTAL.....	\$88,701	*****

Presently, the Company has no significant concentrations of credit risk other than geographic concentrations. Most loans in the current portfolio are made and collateralized in West Virginia and the surrounding Mid Atlantic area. Although portions of the West Virginia economy are closely related to coal and timber, they are supplemented by service industries. The current economies of the Company's markets are seen as relatively stable and are not seen as highly subject to volatile economic change. The Company's wholly-

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owned subsidiaries, Blue Ridge Bank in North Carolina and First Community Bank of Southwest Virginia, provide additional geographic diversification against concentrations of credit risk.

In the normal course of business, the banking subsidiaries of the Company have made loans to directors and executive officers of the Company and its subsidiaries. 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 \$9.8 million and \$11.3 million at December 31, 1998 and 1997, respectively. New loans and payments attributable to the change from 1997 to 1998 total \$3.0 million and \$4.5 million, respectively.

NOTE 6. RESERVE FOR LOAN LOSSES

Activity in the reserve for loan losses was as follows:

Table 39

	1998	1997	1996
(Amounts in Thousands)			
Balance, January 1.....	\$11,406	\$ 8,987	\$8,321
Recoveries credited to reserve.....	736	673	574
Provision for the year charged to operations.....	6,250	4,963	2,273
Reserve acquired in acquisitions.....	--	1,981	--
	18,392	16,604	11,168
Loans charged-off.....	6,988	5,198	2,181
Balance, December 31.....	\$11,404	\$11,406	\$8,987
	*****	*****	*****

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

Table 40

	1998	1997
(Amounts in Thousands)		
Recorded investment in loans considered to be impaired.....	\$5,266	\$7,508
Loans considered to be impaired that were on a non-accrual basis.....	5,266	7,321
Allowance for loan losses related to loans considered to be impaired.....	1,019	1,575
Average recorded investment in impaired loans.....	5,023	5,226
Total interest income recognized on impaired loans.....	148	115
Interest income on impaired loans recognized on a cash basis.....	--	--

NOTE 7. PREMISES AND EQUIPMENT

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

Table 41

	1998	1997
(Amounts in Thousands)		
Land.....	\$ 4,552	\$ 4,624
Bank premises.....	20,124	20,197
Equipment.....	13,906	14,705
	38,582	39,526
Less: accumulated depreciation and amortization.....	20,596	20,393
Total.....	\$17,986	\$19,133
	*****	*****

NOTE 8. LONG-TERM DEBT

Long-term debt consists of a \$7.9 million note to a commercial bank with principal repayments of \$300,000 per quarter, through April 1, 2007. The note accrues interest at a fluctuating rate of interest equal to one hundred thirty basis points in excess of the LIBOR Rate. The loan agreement contains certain covenants that may restrict the payment of dividends to stockholders in the event of default along with other customary borrowing provisions.

Two of the Company's subsidiaries are members of the Federal Home Loan Bank ("FHLB") of Pittsburgh, Pennsylvania. Long-term advances from the FHLB and principal payments on long-term debt as of December 31, 1998 and 1997 mature as follows:

Table 42

	1998		1997	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE
	(Amounts in Thousands)			
1998.....	\$ --	--	\$ 6,200	5.74%
1999.....	1,200	6.61%	1,200	6.90%
2000.....	1,200	6.61%	1,200	6.90%
2001.....	1,200	6.61%	1,200	6.90%
2002.....	1,200	6.61%	1,200	6.90%
2003.....	9,200	6.04%	9,200	6.07%
2004.....	1,200	6.61%	1,200	6.90%
2005.....	700	6.61%	700	6.90%
2006.....	2,000	6.27%	2,000	6.27%
	-----	-----	-----	-----
	\$17,900	6.28%	\$24,100	6.23%
	=====	=====	=====	=====

The acquisition loan used to acquire Blue Ridge Bank is secured by 1.2 million outstanding shares of common stock of Blue Ridge Bank. Advances from the FHLB are secured by stock in the FHLB of Pittsburgh, qualifying first mortgage loans, mortgage-backed securities and certain investment securities. Certain of these advances are subject to restrictions or penalties in the event of prepayment. Other various debt obligations of the Company totaled \$276,000 at December 31, 1998 and \$344,000 at December 31, 1997.

NOTE 9. DEPOSITS

At December 31, 1998, the scheduled maturities of certificates of deposits are as follows:

Table 43

	(Amounts in Thousands)
1999.....	\$336,937
2000.....	77,498
2001.....	24,900
2002.....	12,771
2003 and thereafter.....	14,268

	\$466,374
	=====

Time deposits include Certificates of Deposit issued in denominations of \$100,000 or more which amounted to \$113.4 million and \$117.4 million at December 31, 1998 and 1997, respectively. Interest expense on these certificates was \$6.5 million, \$5.5 million, and \$3.1 million for 1998, 1997, and 1996, respectively.

NOTE 10. PER SHARE AMOUNTS

Basic earnings per share is based upon the weighted average number of shares of common stock outstanding during the year. In February 1997, the FASB issued Statement No. 128, "Earnings Per Share." Statement No. 128 requires the presentation of basic and diluted earnings per share. The Company currently has no dilutive securities or stock arrangements. First Community adopted Statement No. 128 effective December 31, 1997, and all prior period amounts presented have been restated to comply with Statement No. 128. The Company's common stock was split five shares for four on March 31, 1997 and five shares for

four again on March 31, 1998. All share and per share data have been retroactively adjusted to reflect these stock splits. The following table sets forth the net income used to determine net income per common share for the applicable years:

Table 44

	1998	1997	1996
	(Amounts in Thousands, Except Per Share Data)		
Net income.....	\$13,101	\$15,094	\$13,917
Basic and diluted earnings per common share.....	1.86	2.14	1.98

NOTE 11. EMPLOYEE BENEFITS

Through 1995, the Company and its subsidiaries maintained three qualified employee benefit plans. On January 1, 1996, the 401(k) and ESOP plans were merged into a single plan. In October 1996, the third of these three plans, a non-contributory defined benefit pension plan was terminated and the Company recorded a curtailment gain for the pending termination of the defined benefit pension plan of \$1,450,000. Additionally, in the first quarter of 1998, after distributing all participant accrued benefits and paying required excise taxes on the dissolution of the defined benefit plan, an additional \$1,062,000 termination gain was recognized. Benefits under the plan were based on length of service and qualifying compensation. The Company's funding policy was to contribute pension costs accrued. There was no pension cost for the 1998 year. Net periodic pension expense in 1997 and 1996 is as follows:

Table 45

	1997	1996
	(Amounts in Thousands)	
Service cost -- benefits earned during the year.....	\$ --	\$ 326
Interest expense on projected benefit obligation.....	496	607
Expected return on plan assets.....	(879)	(1,390)
Net amortization and deferral.....	(56)	622
	-----	-----
Net periodic pension (income) expense.....	\$(439)	\$ 165
	=====	=====

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 1997, based upon a measurement date of December 31. The plan was fully liquidated at December 31, 1998.

Table 46

	1997

	(Amounts in Thousands)
Accumulated benefit obligation.....	\$ 7,038

Vested benefit obligation.....	7,038

Projected benefit obligation.....	7,038
Plan assets at fair value.....	12,854

Plan assets in excess of projected benefit obligation...	5,816
Unrecognized net gain.....	(2,638)
Unrecognized prior service cost.....	--

Prepaid pension expense.....	\$ 3,178
	=====

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 7.25% and 6.0% respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains an Employee Stock Ownership Plan. Coverage under the plan is provided to all employees meeting minimum eligibility requirements. Annual contributions to 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

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recognized by the Company related to the Employee Stock Ownership Plan was \$947,000, \$767,000 and \$454,000 in 1998, 1997 and 1996, respectively.

EMPLOYEE SAVINGS PLAN

The Company provides a 401(k) Savings Plan available to substantially all employees meeting minimum eligibility requirements. This plan was merged with the Employee Stock Ownership Plan on January 1, 1996 creating a KSP. The cost of Company contributions under the Savings Plan was \$99,000, \$116,000, and \$59,000 in 1998, 1997 and 1996, respectively. The Company's matching contributions are at the discretion of the Board up to 50% of elective deferrals of no more than 6% of compensation. The Company matching rate was 25% for 1998, 1997 and 1996.

EMPLOYEE WELFARE PLAN

The Company provides various medical, dental, 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 is automatic).

During 1998, the Company adopted the First Community Bancshares Employee Insurance Plan and Trust, a partially self-funded medical, dental and prescription welfare plan. The health plan is managed by a third party administrator (TPA). Monthly employer and employee contributions are made to the newly established employee welfare trust, against which, the TPA processes and pays claims. Stop loss insurance coverage limits the Company's funding requirements and risk of loss to \$50,000 and \$863,000 for individual and aggregate claims, respectively. In order to establish a reserve for run-off claims, in the event of plan termination, the Company is funding additional contributions to the trust equivalent to 25% of expected annual claims.

The Company adopted Financial Accounting Standards Board Statement 106 "Employers Accounting for Postretirement Benefits Other Than Pensions" as of January 1, 1993. The adoption of Statement 106 resulted in the recognition of a postretirement benefit obligation at the date of adoption (transition obligation). The Company elected to recognize the obligation over the average remaining life expectancy of the participants. The transition obligation totaled \$634,000 and will be recognized over 17 years. This obligation only applies to a selected group of retirees as retiree benefits were phased out through 1993.

DEFERRED COMPENSATION PLAN

A subsidiary of the Company has deferred compensation agreements with certain current and former officers providing for benefit payments over various periods commencing upon retirement or death. The balance sheet liability at December 31, 1998 was approximately \$858,000. The expenses associated with this plan for 1998, 1997 and 1996 were \$(11,000), \$58,000 and \$32,000, respectively. As a result of an actuarial adjustment to the life expectancies and the discount rate used in computing the present value of the future benefits, the current period reflected a reduction in total benefit cost.

NOTE 12. COMPENSATING BALANCES

Pursuant to agreements with the Federal Reserve Bank, the Company is required to maintain cash balances of approximately \$1.3 million in lieu of charges for check clearing and other services.

NOTE 13. LITIGATION

In the normal course of business, there are various outstanding commitments and contingent liabilities such as threatened legal action and legal proceedings in which the Company and its subsidiaries are defendants.

The most significant matter of litigation which is currently active involves a civil suit filed by heirs of one of the Company's trust customers which seeks to overturn the establishment of a private foundation for which the Company's trust and financial services division serves as Trustee. This suit seeks a total of \$6 million in compensatory and punitive damages as well as the termination of the foundation. The Company and the Trustee believe the creation and operation of the foundation represent the intent and will of the donor.

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Accordingly, the Company has entered a vigorous defense of this suit and the continuation of the foundation's purpose. On October 15, 1998, the plaintiffs in the matter filed a motion for summary judgment. In a hearing on this motion, the Court requested that the Company, as defendant, file a motion for summary dismissal and further ordered that discovery in this case be halted pending receipt of the motion for summary dismissal. The motion for summary dismissal was filed with the Court on January 14, 1999, and in a subsequent ruling, the Court partially granted the bank's motion for summary judgment finding no wrongdoing by the bank in its discretionary use of principal in this matter. Both management and the Company's legal counsel are of the opinion that the remainder of this suit is without merit and will be successfully defended with no material adverse impact on the Company's financial condition or results of operations.

Other legal actions have arisen primarily out of commercial lending transactions and collection activities. Each of these actions involving significant damage allegations or material disputes of issues are detailed in Item 3, Legal Proceedings, in the Company's 1998 Report on Form 10-K.

Additionally, the Company is also subject to certain asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, neither the resolution of these claims nor the funding of credit commitments will have a material effect on the Company's financial position or results of operations.

NOTE 14. DIVIDENDS

The primary source of funds for dividends paid by First Community is dividends received from its subsidiary banks. Dividends paid by the banks are subject to restrictions by banking regulations and a loan agreement with a commercial bank. The loan agreement with the bank restricts dividends in the event of default on the note. The most restrictive provision requires approval by regulatory bodies if dividends declared in any year exceed the year's net income, as defined, plus retained net profit of the two preceding years. At December 31, 1998, subsidiary earnings available for distribution as dividends to the Company without prior approval were \$1.5 million.

NOTE 15. REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS

First Community Bancshares, Inc., First Community Bank, Inc., First Community Bank of Mercer County, Inc., First Community Bank of Southwest Virginia, Inc., and Blue Ridge Bank (collectively referred to as "the Banks") 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 Banks, the banks must meet specific capital guidelines that involve quantitative measures of the entities' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The entities' 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 First Community Bancshares, Inc. and the Banks to maintain minimum amounts and ratios (set forth in the table on page 41) for total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998, that the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 1998 and 1997, the most recent notifications from the Federal Reserve Board categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since those notifications that management believes have changed the institutions category.

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Table 47

	DECEMBER 31, 1998					
	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
TOTAL CAPITAL TO RISK-WEIGHTED ASSETS:						
First Community Bancshares, Inc.	\$84,130	13.25%	\$50,782	8.00%	\$ N/A	N/A
First Community Bank, Inc.	27,985	12.62%	17,741	8.00%	22,177	10.00%
First Community Bank of Mercer County, Inc.	45,279	15.45%	23,447	8.00%	29,309	10.00%
First Community Bank of Southwest Virginia, Inc.	6,777	12.39%	4,377	8.00%	5,471	10.00%
Blue Ridge Bank	11,705	16.10%	5,817	8.00%	7,272	10.00%
TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS:						
First Community Bancshares, Inc.	\$76,153	12.00%	\$25,391	4.00%	\$ N/A	N/A
First Community Bank, Inc.	25,196	11.36%	8,871	4.00%	13,306	6.00%
First Community Bank of Mercer County, Inc.	41,592	14.19%	11,724	4.00%	17,585	6.00%
First Community Bank of Southwest Virginia, Inc.	6,093	11.14%	2,188	4.00%	3,283	6.00%
Blue Ridge Bank	10,795	14.85%	2,909	4.00%	4,363	6.00%
TIER 1 CAPITAL TO AVERAGE ASSETS (LEVERAGE):						
First Community Bancshares, Inc.	\$76,153	7.37%	\$30,998	3.00%	\$ N/A	N/A
First Community Bank, Inc.	25,196	6.42%	11,770	3.00%	19,616	5.00%
First Community Bank of Mercer County, Inc.	41,592	8.92%	13,981	3.00%	23,302	5.00%
First Community Bank of Southwest Virginia, Inc.	6,093	6.11%	3,988	4.00%	4,985	5.00%
Blue Ridge Bank	10,795	9.69%	4,454	4.00%	5,567	5.00%

Table 48

	DECEMBER 31, 1997					
	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
TOTAL CAPITAL TO RISK-WEIGHTED ASSETS:						
First Community Bancshares, Inc.	\$79,178	11.96%	\$52,975	8.00%	\$ N/A	N/A
First Community Bank, Inc.	22,911	10.78%	17,009	8.00%	21,262	10.00%
First Community Bank of Mercer County, Inc.	43,541	13.71%	25,399	8.00%	31,748	10.00%
First Community Bank of Southwest Virginia, Inc.	6,793	12.11%	4,486	8.00%	5,608	10.00%
Blue Ridge Bank	11,167	12.22%	7,308	8.00%	9,135	10.00%
TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS:						
First Community Bancshares, Inc.	\$70,862	10.70%	\$26,488	4.00%	\$ N/A	N/A
First Community Bank, Inc.	20,232	9.52%	8,505	4.00%	12,757	6.00%
First Community Bank of Mercer County, Inc.	39,557	12.46%	12,699	4.00%	19,049	6.00%
First Community Bank of Southwest Virginia, Inc.	6,093	10.86%	2,243	4.00%	3,365	6.00%
Blue Ridge Bank	10,968	11.02%	3,654	4.00%	5,461	6.00%
TIER 1 CAPITAL TO AVERAGE ASSETS (LEVERAGE):						
First Community Bancshares, Inc.	\$70,862	6.96%	\$30,549	3.00%	\$ N/A	N/A
First Community Bank, Inc.	20,232	5.26%	11,542	3.00%	19,237	5.00%
First Community Bank of Mercer County, Inc.	39,557	8.80%	13,481	3.00%	22,468	5.00%
First Community Bank of Southwest Virginia, Inc.	6,093	5.97%	4,084	4.00%	5,105	5.00%
Blue Ridge Bank	10,968	9.15%	4,042	4.00%	5,503	5.00%

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NOTE 16. INCOME TAXES

Table 49

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
	(Amounts in Thousands)		
INCOME TAXES ARE AS FOLLOWS:			
Income exclusive of securities gains (losses)....	\$6,154	\$6,874	\$6,581
Net securities gains (losses).....	10	2	(51)
	\$6,164	\$6,876	\$6,530
	=====	=====	=====

Table 50

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
	(Amounts in Thousands)		
INCOME TAX PROVISIONS CONSISTS OF:			
Current tax expense.....	\$6,605	\$6,520	\$6,143
Deferred tax (benefit) expense.....	(441)	356	387
	\$6,164	\$6,876	\$6,530
	=====	=====	=====

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts deducted for income tax purposes. The tax effects of significant items comprising the Company's net deferred tax asset of December 31, 1998 and 1997 are as follows:

Table 51

	1998	1997
		(Amounts in Thousands)
DEFERRED TAX ASSETS:		
Reserve for loan losses.....	\$4,463	\$4,448
Unrealized asset losses.....	248	229
Deferred compensation.....	956	892
Deferred insurance premiums.....	344	399
Total deferred tax assets.....	\$6,011	\$5,968
DEFERRED TAX LIABILITIES:		
Purchase accounting adjustments.....	2,306	2,072
Depreciation.....	331	374
Gain on pension termination.....	497	565
Unrealized gain on securities available for sale.....	825	833
Other.....	592	347
Total deferred tax liabilities.....	4,551	4,191
Net deferred tax assets.....	\$1,460	\$1,777
	=====	=====

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

Table 52

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
Tax at statutory rate.....	35.0%	35.0%	35.0%
Increases (reductions) resulting from:			
Tax-exempt interest on investment securities and loans.....	(9.6%)	(6.7%)	(6.7%)
State income taxes, net of federal benefit.....	1.3%	1.1%	1.0%
Amortization of purchase accounting adjustments.....	2.3%	1.6%	.5%
Other, net.....	3.0%	.3%	2.1%
Effective tax rate.....	32.0%	31.3%	31.9%
	=====	=====	=====

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NOTE 17. OTHER COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which requires businesses to disclose comprehensive income and its components in their general purpose financial statements. This statement requires the reporting of all items of comprehensive income in a financial statement that is displayed with the same prominence as other financial statements. This statement is effective for fiscal years beginning after December 15, 1997, with reclassification of comparative financial statements and is applicable to interim periods. The Company currently has one component of other comprehensive income which includes unrealized gains or losses on securities available for sale and is detailed as follows:

Table 53

	1998	1997	1996
		(Amounts in Thousands)	
OTHER COMPREHENSIVE INCOME:			
Holding (losses) gains arising during the period....	\$ (17)	\$1,381	\$(66)
Tax benefit or (expense).....	6	(559)	26
Holding (losses) gains arising during the period, net of tax.....	(11)	822	(40)
Reclassification adjustment for (gains) losses realized in net income, net of tax.....	(4)	(6)	135
Tax expense (benefit) of reclassifications.....	2	2	(54)
Other comprehensive income.....	(13)	818	41
Beginning accumulated other comprehensive income.....	1,251	433	392
Ending accumulated other comprehensive income.....	\$1,238	\$1,251	\$433
	=====	=====	=====

NOTE 18. OTHER OPERATING EXPENSES

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

Table 54

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
	(Amounts in Thousands)		

Credit card fees paid.....	\$1,315	\$1,671	\$1,149
Supplies cost.....	959	*	*

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

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments" (SFAS 107). The pronouncement requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practical to estimate the value. SFAS 107 defines a financial instrument as cash, evidence of ownership in an entity, or a contract that conveys or imposes on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument. Fair value is defined as 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 which will

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actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

Table 55

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(Amounts in Thousands)			
ASSETS:				
Cash and due from banks.....	\$ 91,484	\$ 91,484	\$ 34,762	\$ 34,762
Securities available for sale.....	193,194	193,194	161,795	161,795
Investment securities.....	84,016	88,256	109,174	112,263
Federal funds sold.....	25,630	25,630	12,406	12,406
Loans (net of reserve for loan losses).....	600,089	601,205	660,441	661,396
Interest receivable.....	7,030	7,030	7,688	7,688
LIABILITIES:				
Demand deposits.....	123,992	123,992	103,846	103,846
Interest-bearing demand deposits.....	137,169	137,169	127,541	127,541
Savings deposits.....	148,461	148,461	149,407	149,407
Time deposits.....	466,374	467,054	472,713	472,589
Securities sold under agreements to repurchase.....	47,680	47,680	52,351	52,351
Interest, taxes and other obligations.....	10,417	10,417	11,455	11,455
Other indebtedness.....	18,176	18,179	24,444	24,517

FINANCIAL INSTRUMENTS WITH BOOK VALUE EQUAL TO FAIR VALUE

The book values of cash and due from banks, federal funds sold and purchased, securities sold under agreements to repurchase, 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.

INVESTMENT SECURITIES

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.

LOANS

For all categories of loans, such as some residential mortgages, fair value is estimated by discounting the future cash flows using the current rates for similar loans.

DEPOSITS

Deposits without a stated maturity, including demand, interest-bearing demand, and savings accounts, are reported at their carrying value in accordance with SFAS 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.

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COMMITMENTS TO EXTEND CREDIT, STAND-BY LETTERS OF CREDIT, AND FINANCIAL GUARANTEES

The amount of off-balance sheet commitments to extend credit, stand-by 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 20. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information related to First Community Bancshares, Inc. as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997 and 1996 are as follows:

CONDENSED BALANCE SHEETS

(Amounts in Thousands)

Table 56

DECEMBER 31

	1998	1997
ASSETS		
Cash.....	\$ 832	\$ 1,353
Investment in subsidiaries.....	108,889	102,781
Other assets.....	1,506	3,260
TOTAL ASSETS.....	\$111,227	\$107,394
LIABILITIES		
Other liabilities.....	\$ 9,490	\$ 9,534
STOCKHOLDERS' EQUITY		
Common stock.....	7,194	7,194
Additional paid-in capital.....	36,122	36,122
Retained earnings.....	61,488	55,815
Treasury stock.....	(1,403)	(1,271)
Unallocated ESOP shares.....	(1,664)	--
TOTAL STOCKHOLDERS' EQUITY.....	101,737	97,860
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$111,227	\$107,394

CONDENSED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

Table 57

	DECEMBER 31		
	1998	1997	1996
Cash dividends received from subsidiary banks.....	\$ 7,500	\$25,050	\$ 9,825
Revenue.....	112	148	123
Operating expense.....	(1,143)	(779)	(267)
Income tax benefit (expense).....	6,469	24,419	9,681
Equity in undistributed earnings (loss) of subsidiaries (Dividends in excess of earnings of subsidiaries).....	331	210	51
Net income.....	\$13,101	\$15,094	\$13,917
Basic and Diluted Earnings Per Share.....	\$ 1.86	\$ 2.14	\$ 1.98

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CONDENSED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

Table 58

	YEARS ENDING DECEMBER 31		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 13,101	\$ 15,094	\$ 13,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries (Dividends in excess of earnings of subsidiaries).....	(6,301)	9,535	(4,185)
Increase (decrease) in other assets.....	271	(136)	(890)
(Decrease) increase in other liabilities.....	(194)	98	(54)
Other, net.....	--	--	49
Net cash provided by operating activities.....	6,877	24,591	8,837
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of other investments.....	--	--	(1,745)
Proceeds from sale of securities available for sale.....	--	12	--
Payments for investments in and advances to subsidiaries.....	--	(27,695)	--
Net cash used in investing activities.....	--	(27,683)	(1,745)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt.....	3,000	11,730	--
Repayment of long-term debt.....	(2,851)	(2,400)	--
Acquisition of treasury stock.....	(132)	--	(170)
Dividends paid.....	(7,415)	(7,345)	(6,422)
Other, net.....	--	(6)	1,499
Net cash (used in) provided by financing activities....	(7,398)	1,979	(5,093)
Net (decrease) increase in cash and cash equivalents.....	(521)	(1,113)	1,999
Cash and cash equivalents at beginning of year.....	1,353	2,466	467
Cash and cash equivalents at end of year.....	\$ 832	\$ 1,353	\$ 2,466

NOTE 21. SUBSEQUENT EVENTS

Early in 1999, the Company and its four affiliate banks entered into a Merger and Reorganization Agreement which provides for the merger of the four affiliate banks into a single national bank under the charter of First Community Bank, Inc. which was converted to a national association as part of the reorganization. From the effective date of the merger (expected completion on April 30, 1999), all banking operations will be conducted under the charter and title of First Community Bank, N.A., a national association supervised by the Comptroller of the Currency.

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INDEPENDENT AUDITORS' REPORT

LOGO

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF FIRST COMMUNITY BANCSHARES, INC.

We have audited the accompanying consolidated balance sheets of First Community Bancshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of First Community Bancshares Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of First Community Bancshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche

Pittsburgh, Pennsylvania
January 29, 1999

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REPORT ON 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 generally accepted accounting principles. 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 (Deloitte & Touche LLP) are engaged to examine, and render an opinion on, the fairness of our consolidated financial statements in conformity with generally accepted accounting principles. 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 which 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/ James L. Harrison, Sr.

James L. Harrison, Sr.
President & Chief Executive Officer

/s/ John M. Mendez

John M. Mendez
Vice President & Chief Financial Officer

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BOARD OF DIRECTORS, FIRST COMMUNITY BANCSHARES, INC.

SAM CLARK
Agent, State Farm Insurance

ALLEN T. HAMBUR
Professor of Chemistry, West Virginia Wesleyan College; Member Executive Committee

JAMES L. HARRISON, SR.
President and Chief Executive Officer, First Community Bancshares, Inc.; Member Executive Committee; President, First Community Bank, Inc., First Community Bank of Mercer County, Inc., and First Community Bank of Southwest Virginia, Inc.; Executive Vice President, Blue Ridge Bank

B. W. HARVEY
President, Highlands Real Estate Management, Inc.; Member Executive Committee

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

JOHN M. MENDEZ
Vice President, Chief Financial Officer and Secretary, First Community Bancshares, Inc.; Vice President -- Finance & Chief Administrative Officer, First Community Bank, Inc., First Community Bank of Mercer County, Inc., and First Community Bank of Southwest Virginia, Inc.; Assistant Corporate Secretary, Blue Ridge Bank

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

ROBERT E. PERKINSON, JR.
Vice President -- Operations, MAPCO Coal, Inc. -- Virginia Region

WILLIAM P. STAFFORD
President, Princeton Machinery Service, Inc.; Chairman, First Community Bancshares, Inc.; Member Executive Committee and Audit Committee

WILLIAM P. STAFFORD, II
Attorney-at-Law, Brewster, Moxhous & Cameron, PLLC

W. W. TINDER, JR.
Chairman of the Board and Chief Executive Officer, Tinder Enterprises, Inc.; President, Tindo Leasing Corporation (Real Estate Holdings); Member Executive Committee and Audit Committee

OFFICERS, FIRST COMMUNITY BANCSHARES, INC.

JAMES L. HARRISON, SR.
President and Chief Executive Officer

JOHN M. MENDEZ
Vice President, Chief Financial Officer and Secretary

ROBERT L. BUZZO
Vice President

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DIRECTORS

NICK AMELI, JR., CLU, ChFC
Sales Manager, New York Life Insurance

K. A. AMMAR, JR., *
President and Chief Executive Officer, Ammar's Inc. and Magic Mart

DR. JAMES P. BAILEY*
Veterinarian, Veterinary Associates, Inc.

PAUL BARKLEY
Self Employed Accountant

JACK BEBBER
Retired Manager, Carolina Tire

CLINT F. BEDSAUL**
President, BBC, Inc.; President, Truline Truss, Inc.

CLAUDE BILLINGS
Retired North Carolina House of Representatives; Poultry Farmer

BILL BLACKBURN
Owner, B & D Auto Supply

CLAUDE E. BLANKENSHIP
Officer, C and R Furniture; Former Mercer County Commissioner

W. C. BLANKENSHIP, JR.+
Chairman of the Board, First Community Bank of Southwest Virginia, Inc.; Agent,
State Farm Insurance

F. K. BLIZZARD
Retired, Blizzard's Inc.

G. ROSS BOYCE
Retired Senior Vice President, The Flat Top National Bank of Bluefield

D. L. BOWLING, JR.*
President, True Energy, Inc.

ROBERT L. BUZZO*
Vice President, First Community Bancshares, Inc.; Chief Executive Officer, First
Community Bank -- Bluefield

JUANITA G. BRYAN**
Homemaker

SAM CLARK**
Agent, State Farm Insurance

HENRY CHURCH
Owner, H & N Polled Hereford Farms

L. M. COMPTON
President, Compton Enterprises

LILLIAN S. COOKE
Private Investor

GEORGE R. CROUSE, JR.**
Farming

C. WILLIAM DAVIS*
Attorney at Law, Richardson & Davis

H. R. DAVIS
Auctioneer

MARK T. DAVIS
Attorney

THOMAS E. DOUGLAS**
Town Manager, Sparta, NC

FRANK FERRANTE*
Retired Owner of Frankie's LaSalute

LLOYD D. FEUCHTENBERGER, JR.
Retired Bakery Executive

CHESTER H. FRIEDL+
Pharmacist

H. A. GOODYKOONTZ, JR.
Retired Pharmacist

OWEN R. GRIFFITH, JR.
Retired President and Chief Executive Officer, First Community Bank, Inc.

ANTHONY A. GUM
Professor, Business and Economics, West Virginia Wesleyan College

ALLEN T. HAMNER, PH.D.**
Professor of Chemistry, West Virginia Wesleyan College

W. T. HANCOCK
Of Counsel, Richardson & Davis

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JAMES L. HARRISON, SR.** + **
President and Chief Executive Officer, First Community Bancshares, Inc.;
President, First Community Bank, Inc., First Community Bank of Mercer County,
Inc., and First Community Bank of Southwest Virginia, Inc.; Executive Vice
President, Blue Ridge Bank

B. W. HARVEY**
President, Highlands Real Estate Management, Inc.

STEVE ICENHOUR
Owner, Trucking Company and Icenhour's Garage and Tire Service

CHAPMAN I. JOHNSTON, JR.
Retired Chairman of the Board, Bluefield Supply Company

I. NORRIS KANTOR**
Partner, Katz, Kantor & Perkins, Attorneys-at-Law

WALDEN M. KEENE-
Retired Coal Operator

DR. JOHN S. LAMBERT, JR.
Dentist

M. NEIL LOHR
Pharmacist, Princeton Pharmacy

RICHARD L. LOWRY
President, Murphy Insurance Agency

DR. B. J. MARTIN, D.M.D.
Martin Dental Associates

JOHN P. MCCABE
Retired Vice Chairman of the Board, First Community Bank

A. HERBERT MCCLAGHERTY
President, The Dean Company

JOHN T. MCGLAMERY
Retired Merchant

KEITH MEADOWS
Plant Manager, Leviton Manufacturing/Southern Devices

DAVID MECIMORE
Owner, Taylorsville Precast Molds

JOHN M. MENDEZ** + **
Vice President, Chief Financial Officer and Secretary, First Community Bancshares, Inc.; Vice President -- Finance and Chief Administrative Officer, First Community Bank, Inc., First Community Bank of Mercer County, Inc.; and First Community Bank of Southwest Virginia, Inc.; Assistant Corporate Secretary, Blue Ridge Bank

EDGAR L. MILLER, SR.
Owner, Edgar's Exxon Service Station

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

WAYNE V. MOORE**
Chief Executive Officer, Blue Ridge Bank

DR. SAMUEL A. MUSCARI, SR.
Physician

CHARLES C. MYERS
Owner, Cash & Carry Wholesale Grocery

AVERY NEAVES
CPA, Kemp & Neaves, PLLC

FRED NORMAN
Retired Realtor & Businessman

GARY B. PARLIER**
Owner, Custom Wall and Floor Covering

NORA BELLE PASLEY
Retired, Peoples Bank of Bluewell

ROBERT E. PERKINSON, JR.**
Vice President -- Operations, MAPCO Coal, Inc. -- Virginia Region

DR. EDUARDO D. PIAGATA*
Physician

CLAUDETTA POTTS
Retired Owner, Radio Station

ROBERT PREVETTE
Poultry Farmer; Contractor

BERNIE QUEEN
Retired, Amherst Coal Company

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CLYDE B. RATLIFF*
President, Gasco Drilling, Inc.

JIMMIE LEE REAVIS
Rural Carrier, U. S. Postal Service

JOE H. ROBERTS**
Farming

RON ROSEMAN
Partner, Alexvale Furniture Manufacturing

MICHAEL ROSS
President, Ross and Wharton Gas Co.

RICHARD G. RUNDLE*
Attorney at Law, Rundle and Rundle, LC

LARRY SCHRONCE
Owner, Larry Schronce Ford, Inc.

GILES D. SCOTT
Retired Restaurant Owner

GUY L. SCOTT, JR.**
President and Chairman of the Board, Blue Ridge Bank

GEORGE L. SHEETS**
President and Manager, Alleghany Cablevision; Owner, Sheets Jewelry

WILLIAM C. SHELL**
President, Shell Brothers Distributors, Inc.

HERMAN SHOOK
Retired Furniture Manufacturer

M. M. SHUMATE
Retired

E. T. SMITH
President, Smith Services, Inc.

JACK D. STAFFORD, P.E.
President, Stafford Consultants, Inc.

WILLIAM P. STAFFORD**
President, Princeton Machinery Service, Inc.

WILLIAM P. STAFFORD, II**
Attorney at Law, Brewster, Morhous and Cameron, PLLC

WILLIAM D. STARLINS*
Retired Coal Operator

DR. THEODORE S. STERN**
Chairman Emeritus, Blue Ridge Bank

ROBERT R. STUART, JR.
Retired Bakery Executive

W. W. TINDER, JR.**
Chairman and Chief Executive Officer, Tinder Enterprises, Inc.

ROBERT J. WALLACE
Attorney at Law, Coleman & Wallace

DALE F. WOODY*
President, Woody Lumber Company

* Denotes Members of First Community Bank, Inc. & First Community Bank of Mercer County, Inc. Boards

** Denotes Members of First Community Bancshares, Inc., First Community Bank, Inc. and First Community Bank of Mercer County, Inc. Boards

* Denotes Members of First Community Bank of Southwest Virginia, Inc. Board

** Denotes Members of Blue Ridge Bank Board

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FIRST COMMUNITY BANK OF MERCER COUNTY, INC.

(A WEST VIRGINIA CORPORATION -- MEMBER FDIC)

1001 Mercer Street
Princeton, West Virginia
24740-5939
(304) 487-9000 or (304) 327-5175
Pine Plaza Branch (304) 425-7523
Matoaka Branch (304) 467-8860

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

Blue Prince Road, Green Valley
Bluefield, West Virginia 24701-6160
(304) 325-3641

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

FIRST COMMUNITY BANK, INC.

(A WEST VIRGINIA CORPORATION -- MEMBER FDIC)

Corner of Bank and Cedar Streets
Pineville, West Virginia 24874-0269
(304) 732-7011
East Pineville Branch
(304) 732-7011

600 Guyandotte Avenue
Mullens, West Virginia 25882-1024
(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

Tennerton
Route 20 South Tennerton
Buckhannon, West Virginia 26201
(304) 472-1112

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

77 North Morgan Boulevard
Logan, West Virginia 25601
(304) 752-8102
Corner of Main and 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

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

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

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

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FIRST COMMUNITY BANK OF SOUTHWEST VIRGINIA, INC.

(A VIRGINIA CORPORATION -- MEMBER FDIC)

643 E. Riverside Drive
Tazewell, Virginia 24651
(540) 988-5577

302 Washington Square
Richlands, Virginia 24641
(540) 964-7454

Chase Street & Alley 7
Clintwood, Virginia 24228
(540) 926-4671
Rt. 1, Box 408
Max Meadows, Virginia 24360
(540) 637-3122

8044 Main Street
Pound, Virginia 24279
(540) 796-5431

910 East Main Street
Wycheville, Virginia 24382
(540) 228-1901

BLUE RIDGE BANK

(A NORTH CAROLINA CORPORATION -- MEMBER FDIC)

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

5519 Mountain View Road
Hays, North Carolina 28635
(910) 696-2265

57 N. Main Street

Sparta, North Carolina 28675
(336) 372-2265
150 N. Center Street
Taylorsville, North Carolina 28681
(828) 632-2265

FINANCIAL INFORMATION

CORPORATE HEADQUARTERS

1001 Mercer Street
P. O. Box 5909
Princeton, West Virginia
24740-5909
(304) 487-9000

STOCK REGISTRAR AND TRANSFER AGENT

First Community Bank of Mercer County, Inc.
Trust and Financial Services Division
P. O. Box 950
Bluefield, West Virginia
24701-0950
(304) 325-7151

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 Vice President & Chief Financial Officer of First Community Bancshares, Inc.

FINANCIAL CONTACT

John M. Mendez
Vice President &
Chief Financial Officer,
First Community Bancshares, Inc.
P. O. Box 5909
Princeton, West Virginia
24740-5909
(304) 487-9000

INTERNET ACCESS

www.fcbinc.com
fcbcorp@aol.com

LOGOFirst Community Bancshares Logo

Section 3: EX-23 (INDEPENDENT AUDITORS' CONSENT)

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-63865 on form S-8 of First Community Bancshares, Inc. of our report dated January 29, 1999, incorporated by reference in this Annual report on Form 10-K of First Community Bancshares, Inc. for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
March 30, 1999

Section 4: EX-27 (FINANCIAL DATA SCHEDULE)

Table 1

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