FCBC 10-K 12/31/1999

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Section 1: 10-K (FORM 10-K)

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

For the Fiscal Year Ended December 31, 1999
or
[ ] Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

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 of incorporation or organization)	(IRS Employer Identification No.)
One Community Place, Bluefield, Virginia	24605-0989
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (540) 326-9000

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 13, 2000.

$125,609,748 based on the closing sales price at that date
Common Stock, $1 par value

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of March 13, 2000.

Common Stock, $1 par value- 8,725,596

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the First Community Bancshares, Inc. 1999 Annual Report to Security

Holders are incorporated by reference in Part I and II hereof.

Portions of the Proxy Statement for the annual meeting of shareholders to be held April 11, 2000 is incorporated by reference in Part III of this Form 10-K.

Form 10-K Information

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1999 Form 10-K Annual Report

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PART I

ITEM 1. BUSINESS

GENERAL

First Community Bancshares, Inc. (FCBI or Company, Corporation or Registrant) was incorporated in September 1997 in the State of Nevada and serves as the holding company for first Community Bank, N. A., a national association which conducts commercial banking operations within the states of Virginia, West Virginia and North Carolina. Prior to December 1997, the holding company operated under the title FCFT, Inc. In order to facilitate a change in name to First Community Bancshares, Inc. and to change the Company's state of domicile from Delaware to Nevada, First Community Bancshares, Inc. was formed to serve as the successor in merger to FCFT, Inc. thus facilitating the changes of name and state of domicile. As a result of this merger and a series of acquisitions and corporate reorganizations which are discussed in more detail in the following paragraphs, First Community Bancshares, Inc. now operates as a one-bank holding company through First Community Bank, N. A. First Community Bancshares, Inc. now operates as a one-bank holding company through First Community Bank, N. A. First Community Bancshares, Inc. and its wholly-owned subsidiary have total assets of approximately $1.09 billion at December 31, 1999 and conduct commercial banking

business throughout the three-state area of Virginia, West Virginia and North Carolina through 31 full-service banking operations and 11 mortgage offices which are located throughout the state of Virginia.

On December 29, 1995, FCBI reorganized its then 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, consisted of five divisions with offices in Princeton, Bluefield, and Bluewell, 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 Citizen's common stock. Accordingly, 263,159 shares of FCFT, 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 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 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 $24.7 million and resulted in an intangible asset of approximately $13.2 million, which is being amortized over a 15-year period. The acquisition was 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.

In September 1997, FCB-SWV, Inc. acquired three branches from First Virginia Bank 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 and is being amortized over a 15-year period.

Effective with the close of business on April 30, 1999, First Community Bank, Inc. was converted to a National Association entitled First Community Bank, N.A. (FCBNA). Concurrent with this conversion, FCBNA acquired the outstanding stock of Blue Ridge Bank from First Community Bancshares, Inc. and the operations of First Community Bank of Mercer County, Inc. and First Community Bank of Southwest Virginia, Inc. were merged with and into FCBNA. Additionally, the Corporate headquarters of FCBI and FCBNA were relocated to the new Corporate

center located in Bluefield, Virginia.

In September 1999, the Company's wholly owned banking subsidiary, FCBNA, acquired United First Mortgage, Inc. (UFM). UFM is a mortgage brokerage business organized under the laws of the State of Virginia. UFM conducts operations through eleven facilities situated in eastern Virginia.

Currently, the Registrant is a bank holding company and the banking operations are expected to remain the principal business and major source of revenue. The Registrant provides a mechanism for ownership of the subsidiary banking operations, provides capital funds as required and serves as a conduit for distribution of dividends to stockholders. The Registrant also considers and evaluates options for growth and expansion of the existing subsidiary banking operations.

The Registrant currently derives substantially all of its revenues from dividends paid by its subsidiary bank. Dividend payments by the bank are determined in relation to earnings, asset growth and capital position and are subject to certain restrictions by regulatory agencies as described more fully under Supervision and Regulation of this item.

First Community Bank, N.A. (A National Association)

FCBNA is a nationally chartered bank organized under the banking laws of the United States. FCBNA engages in general commercial and retail banking business in West Virginia, Virginia and North Carolina through 31 full service banking facilities. It provides safe deposit services and makes all types of loans, including commercial, mortgage and personal loans. FCBNA also provides trust services and its deposits are insured by the FDIC. FCBNA is a member of the Federal Reserve System and is a member of the Federal Home Loan Bank (FHLB) of Atlanta. Regulatory oversight of the banking subsidiary is conducted by the Office of the Comptroller of the Currency (OCC).

LENDING ACTIVITIES

The Company's banking subsidiary generates 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 67.3% of average earning assets and present a higher level of credit risk to the Company when contrasted with investment securities.

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

Loan portfolios total $704.1 million at December 31, 1999 and are comprised of commercial, real estate and consumer loans including home equity loans. Commercial and commercial real estate loans comprise 42.7% of the total loan portfolio. Commercial loans include loans to small to mid-size industrial, commercial and service companies that include but are not limited to, coal mining companies, manufacturers, automobile dealers, and retail and wholesale merchants. 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 Loan 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 35.7% 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 18.1% of the total loan portfolio. Collateral for these loans include automobiles, boats, recreational vehicles, and other personal property. Personal loans and home equity loans 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, which was substantially curtailed in 1998, led to a significant increase in consumer loan charge-offs in 1997 and 1998. During 1998, the Company sold $14 million in credit card revolving loan accounts and terminated its credit card operations due to strong competition for this form of business, rising consumer delinquencies and higher loss ratios.

The average yield on a tax equivalent basis on all loans in 1999 was 9.17% and average loans expressed as a percentage of average deposits were 75% in 1999. This percentage is consistent with the prior year level of 74% in 1998, however, this represents a lower level of outstanding loans when compared with the loan to deposit ratio of 81% in 1997.

EMPLOYEES

The Registrant and its subsidiaries had 489 employees at December 31, 1999. Management considers employee relations to be excellent.

COMPETITION

The Corporation's subsidiaries face substantial competition in their operations from banking and nonbanking institutions, including savings and loan associations, credit unions, money market funds and other investment vehicles, mutual fund advisory companies, brokerage firms, insurance companies, leasing companies, credit card issuers, mortgage banking companies, investment banking companies, finance companies and other types of financial services providers.

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

SUPERVISION AND REGULATION

GENERAL

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 under the Home Mortgage Disclosure Act 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.

The earnings of the Corporation's subsidiary, and therefore the earnings of the Corporation, are affected by general economic conditions, management policies and the legislative and governmental actions of various regulatory authorities, including the Federal Reserve Board, the OCC and the FDIC. In addition, there are numerous governmental requirements and regulations which affect the activities of the Corporation and its subsidiary.

PAYMENT OF DIVIDENDS

The Corporation is a legal entity separate and distinct from its banking subsidiary. A major portion of the revenues of the Corporation result from amounts paid as dividends to the Corporation by its national bank subsidiary. The prior approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year will exceed the sum of such bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends which would be greater than the bank's undivided profits after deducting statutory bad debts in excess of the bank's allowance for loan losses.

In addition, the Corporation and its banking subsidiary are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

CAPITAL ADEQUACY

Under the risk-based capital requirements for bank holding companies, the minimum requirement for the ratio of capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) is eight percent. At least half of the total capital is to be composed of common stockholders' equity, retained earnings, a limited amount of qualifying perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and certain intangibles ("tier 1 capital" and together with tier 2 capital "total capital"). The remainder of total capital may consist of mandatory convertible debt securities and a limited

amount of subordinated debt, qualifying preferred stock and loan loss allowance ("tier 2 capital"). At December 31, 1999, the Corporation's tier 1 capital and total capital ratios were 11.96 percent and 13.22 percent, respectively.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These requirements provide for a minimum leverage ratio of tier 1 capital to adjusted average quarterly assets less certain amounts ("leverage ratio") equal to three percent for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of from at least four to five percent. The Corporation's leverage ratio at December 31, 1999, was 8.25 percent. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve Board

will continue to consider a "tangible tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity.

The Corporation's subsidiary bank is subject to similar capital requirements adopted by the Comptroller of the Currency. The capital ratios of the bank subsidiary of the Corporation are set forth on page 43 in the Annual Report and are incorporated herein by reference.

SUPPORT OF SUBSIDIARY BANK

The Federal Deposit Insurance Corporation Improvement Act, as amended ("FDICIA"), among other things, imposes liability on an institution the deposits of which are insured by the FDIC, such as the Corporation's subsidiary bank, for certain potential obligations to the FDIC incurred in connection with other FDIC-insured institutions under common control with such institution.

Under the National Bank Act, if the capital stock of a national bank is impaired by losses or otherwise, the Comptroller is authorized to require payment of the deficiency by assessment upon the bank's stockholders, pro rata, and to the extent necessary, if any such assessment is not paid by any stockholder after three months notice, to sell the stock of such stockholder to make good the deficiency. Under Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support the subsidiary. This support may be required at times when, absent such Federal Reserve Board policy, the Corporation may not find itself able to provide it.

Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

DEPOSITOR PREFERENCE STATUTE

Under federal law, deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the "liquidation or other resolution" of such an institution by any receiver.

BORROWINGS BY THE CORPORATION

The banking subsidiary of the Registrant is subject to certain restrictions by regulatory bodies which limit the amounts and the manner in which it may loan funds to the Registrant. The bank is 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 bank 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 the 1999 Consolidated Financial Statements incorporated herein by reference.)

PROMPT CORRECTIVE ACTION

The FDICIA, among other things, requires the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". A depository institution's capital tier will depend upon where its capital levels compare to various relevant capital measures and certain other factors, as established by regulation.

Federal regulatory authorities have adopted regulations establishing relevant capital measures and relevant capital levels applicable to FDIC-insured banks. The relevant capital measures are the total capital ratio, the tier 1 capital ratio and the leverage ratio. Under the regulations, an FDIC-insured bank will be: (i) "well capitalized" if it has a total capital ratio of ten percent or greater, a tier 1 capital ratio of six percent or greater and a leverage ratio of five percent or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total capital ratio of eight percent or greater, a tier 1 capital ratio of four percent or greater and a leverage ratio of four percent or greater (three percent in certain circumstances) and is not "well capitalized"; (iii) "undercapitalized" if it has a total capital ratio of less than

eight percent, a tier 1 capital ratio of less than four percent or a leverage ratio of less than four percent (three percent in certain circumstances); (iv) "significantly undercapitalized" if it has a total capital ratio of less than six percent, a tier 1 capital ratio of less than three percent or a leverage ratio of less than three percent; and (v) "critically undercapitalized" if its tangible equity is equal to or less than two percent of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 1999, the Corporation's deposit-taking subsidiary bank had capital levels that qualify it as being "well capitalized" under such regulations.

The FDICIA generally prohibits an FDIC-insured depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be "undercapitalized". "Undercapitalized" depository institutions are subject to growth limitations and are required to submit a capital restoration plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to five percent of the depository institution's total assets at the time it became "undercapitalized", and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized".

"Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator. A bank that is not "well capitalized" is subject to

certain limitations relating to so-called "brokered" deposits.

INTERSTATE BANKING AND BRANCH LEGISLATION

The Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "IBBEA"), authorized interstate acquisitions of banks and bank holding companies without geographic limitation beginning one year after enactment. In addition, it authorized, beginning June 1, 1997, a bank to merge with a bank in another state as long as neither of the states opted out of interstate branching between the date of enactment of the IBBEA and May 31, 1997. In addition, a bank may establish and operate a de novo branch in a state in which the bank does not maintain a branch if that state expressly permits de novo branching.

RECENT LEGISLATION

Effective March 11, 2000, pursuant to authority granted under the Gramm-Leach-Bliley Act, a bank holding company may elect to become a financial holding company and thereby to engage in a broader range of financial and other activities than are permissible for traditional bank holding companies. In order to qualify for the election, all of the depository institution subsidiaries of the bank holding company must be well capitalized and well managed, as defined by regulation, and all of its insured depository institution subsidiaries have achieved a rating of "satisfactory" or better with respect to meeting community credit needs. Pursuant to the Gramm-Leach-Bliley Act, financial holding companies will be permitted to engage in activities that are "financial in nature" or incidental or complementary thereto, as determined by the Federal Reserve Board. The Gramm-Leach-Bliley Act identifies several activities as "financial in nature," including, among others, insurance underwriting and agency, investment advisory services, merchant banking and underwriting, and dealing or making a market in securities. FCBI has not, at this time, made any decisions with respect to the extent to which it will become a financial holding company under the Act.

GOVERNMENTAL MONETARY POLICIES AND ECONOMIC CONTROLS

The earnings of the Registrant and its subsidiary 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 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 %)

	1999			1998			1997		
	AVERAGE BALANCE	INTEREST (1)	YIELD/RATE (1)	AVERAGE BALANCE	INTEREST (1)	YIELD/RATE (1)	AVERAGE BALANCE	INTEREST (1)	YIELD/RATE (1)
Earning Assets:									
Loans (2)									
Taxable	$ 626,868	$57,346	9.15%	$ 634,342	$61,355	9.67%	$601,492	$58,676	9.76%
Tax-Exempt	10,043	1,062	10.58%	13,425	1,490	11.10%	15,993	1,657	10.36%
Total	636,911	58,408	9.17%	647,767	62,845	9.70%	617,485	60,333	9.77%
Reserve for Loan Losses	(11,239)			(11,731)			(9,770)		
Net Total	625,672	58,408	9.34%	636,036	62,845	9.88%	607,715	60,333	9.93%
Securities Available For Sale:									
Taxable	186,379	11,417	6.13%	121,704	7,750	6.37%	122,326	8,226	6.72%
Tax-Exempt	35,627	2,769	7.77%	26,056	2,015	7.73%	17,162	1,388	8.09%
Total	222,006	14,186	6.39%	147,760	9,765	6.61%	139,488	9,614	6.89%
Investment Securities:									
Taxable	6,782	465	6.86%	20,221	1,307	6.46%	45,581	2,820	6.19%
Tax-Exempt	73,938	5,983	8.09%	74,766	6,036	8.07%	59,547	4,830	8.11%
Total	80,720	6,448	7.99%	94,987	7,343	7.73%	105,128	7,650	7.28%
Interest-Bearing Deposits	9,866	482	4.89%	56,136	3,007	5.36%	418	44	10.53%
Federal Funds Sold	8,800	403	4.58%	29,628	1,593	5.38%	17,127	949	5.54%
Total Earning Assets	947,064	79,927	8.44%	964,547	84,553	8.77%	869,876	78,590	9.03%
Other Assets	95,119			93,984			79,604		
Total	$1,042,183			$1,058,531			$949,480		
Interest-Bearing Liabilities:									
Demand Deposits	$ 137,816	2,974	2.16%	$134,195	3,732	2.78%	$111,177	3,064	2.76%
Savings Deposits	145,526	3,257	2.24%	150,749	4,452	2.95%	141,827	4,350	3.07%
Time Deposits	451,079	22,913	5.08%	474,263	26,196	5.52%	406,208	21,359	5.26%
Short-Term Borrowings	58,365	2,326	3.99%	51,457	2,288	4.45%	59,462	2,623	4.41%
Long-Term Borrowings	12,905	781	6.05%	23,468	1,459	6.22%	22,654	1,494	6.59%
Total Interest-Bearing Liabilities	805,691	32,251	4.00%	834,132	38,127	4.57%	741,328	32,890	4.43%
Demand Deposits	119,576			111,565			100,158		
Other Liabilities	13,070			12,236			13,955		
Stockholders' Equity	103,846			100,598			94,039		
Total	$1,042,183			$1,058,531			$949,480		
Net Interest Income		$47,676			$46,426			$45,700	
Net Interest Rate Spread (3)			4.44%			4.20%			4.60%
Net Interest Margin (4)			5.03%			4.81%			5.25%

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

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

C. RATE AND VOLUME ANALYSIS OF INTEREST (1)

Table 3

(Amounts in Thousands)

	1999 Compared to 1998 Increase/(Decrease) due to			1998 Compared to 1997 Increase/(Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned On:						
Loans	$(1,076)	$(3,361)	$(4,437)	$ 2,902	$ (390)	$ 2,512
Investment securities available for sale	4,716	(295)	4,421	649	(498)	151
Investment securities held to maturity	(984)	89	(895)	(405)	98	(307)
Interest bearing deposits with other banks	(2,282)	(243)	(2,525)	2,995	(32)	2,963
Federal funds sold	(983)	(207)	(1,190)	673	29	644
Total interest earning assets	(609)	(4,017)	(4,626)	6,814	(851)	5,963
Interest Paid On:						
Demand deposits	98	(856)	(758)	640	28	668
Savings deposits	(150)	(1,045)	(1,195)	267	(165)	102
Time deposits	(1,242)	(2,041)	(3,283)	3,718	1,119	4,837
Short-term borrowings	289	(251)	38	(356)	31	(325)
Long-term debt	(640)	(38)	(678)	53	(98)	(45)
Total interest bearing liabilities	(1,645)	(4,231)	(5,876)	4,322	915	5,237
Change in net interest income	$ 1,036	$ 214	$ 1,250	$ 2,492	$(1,766)	$ 726

(1) Fully Taxable Equivalent-using the federal statutory rate of 35%.

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)	1999	December 31 1998	1997
U.S. Treasury securities	$ 100	$ 100	$ 4,098
U.S. Government agencies and corporations	3,663	7,546	26,377
States and political subdivisions	73,640	75,009	77,641
Other securities	1,365	1,361	1,058
	$78,768	$ 84,016	$109,174

Market Value of Securities Available for Sale:

Table 5

(Amounts in Thousands)	1999	December 31 1998	1997
U.S. Government agencies and corporations	$143,636	$119,508	$132,746
States and political subdivisions	33,355	37,343	22,576
Other securities	35,114	36,343	6,473
	$212,105	$193,194	$161,795

B. Maturity and Yields

The required information is incorporated by reference to pages 32 through 34 of the 1999 Annual Report.

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

III. LOAN PORTFOLIO

A. Loan Summary

Table 6

Amounts in Thousands)	1999	1998	December 31 1997	1996	1995
Commercial, Financial and Agricultural	$ 92,379	$ 77,233	$ 82,445	$ 79,278	$ 71,441
Real Estate - Commercial	208,228	170,683	202,625	166,787	152,579
Real Estate - Construction	24,684	8,988	9,612	10,589	5,608
Real Estate - Residential	251,332	228,540	227,465	171,455	155,282
Consumer	128,541	127,169	151,429	120,720	100,843
Other	62	894	1,185	552	519
Total	705,586	613,507	674,761	549,381	486,272
Less : Unearned Income	1,490	2,014	2,944	1,678	1,121
	704,096	611,493	671,817	547,703	485,151
Less: Reserve for Loan Losses	11,900	11,404	11,406	8,987	8,321
Net Loans	$692,196	$600,089	$660,411	$538,716	$476,830

======== ======== ======== ======== ========

B. Maturities and Rate Sensitivity of Loan Portfolio at December 31, 1999:

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	$ 42,515	$ 30,928	$ 19,296	$ 92,739	13.17%
Real Estate - Commercial	60,905	67,030	80,292	208,227	29.57%
Real Estate - Construction	10,972	10,473	3,239	24,684	3.51%
Real Estate - Mortgage	27,005	95,496	128,656	251,157	35.67%
Consumer	19,321	96,813	11,093	127,227	18.07%
Other	-0-	49	13	62	0.01%
	$160,718	$300,789	$242,589	$704,096	100.00%
Rate Sensitivity:					
Pre-determined Rate	$ 82,660	$270,180	$189,275	$542,115	76.99%
Floating or Adjustable Rate	78,058	30,609	53,314	161,981	23.01%
	$160,718	$300,789	$242,589	$704,096	100.00%
	22.83%	42.72%	34.45%	100.00%	

C. Risk Elements. The required information for risk elements is included below and incorporated by reference to pages 16 and 17 of the 1999 Annual Report.

Nonperforming Assets:

Table 8

(Amounts in Thousands)	December 31 1999	1998	1997	1996	1995
Non-accruing Loans	$7,889	$7,763	$9,988	$5,476	$4,371
Loans Past Due Over 90 Days	1,259	377	4,391	780	673
Restructured Loans Performing in Accordance With Modified Terms	505	509	534	401	440
Gross Interest Income Which Would Have Been Recorded Under Original Terms of Non-Accruing and Re-Structured Loans	436				
Actual Interest Income During the Period	78				

Commitments to Lend Additional Funds on Non-Performing Assets	--

Management believes that the extent of problem loans at December 31, 1999 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 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, 1999 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, Virginia and North Carolina and the surrounding mid-Atlantic area. Although portions of the Company's market area 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

	December 31	
(Amounts in Thousands)	1999	1998
Commercial, financial and agricultural	$5,585	$5,112
Real estate-mortgage	266	154
Total investment in loans considered to be impaired	$5,851	$5,266

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.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. 1. Summary of Loan Loss Experience:

Table 10

	Years Ended December 31				
(Amounts in Thousands, Except Percent Data)	1999	1998	1997	1996	1995

Balance of reserve at beginning of period	$11,404	$11,406	$ 8,987	$8,321	$8,479
Reserve of subsidiaries at date of acquisition...........	--	--	1,981	--	--
Charge-offs:					
Commercial, financial and agricultural	562	3,602	2,052	369	1,875
Real estate- residential	268	367	385	275	109
Installment	2,178	3,019	2,761	1,537	899
Total Charge-offs	3,008	6,988	5,198	2,181	2,883
Recoveries:					
Commercial, financial and agricultural	74	190	130	249	126
Real estate-residential	60	31	31	26	35
Installment	477	515	512	299	329
Total Recoveries	611	736	673	574	490
Net charge-offs	2,397	6,252	4,525	1,607	2,393
Provision charged to operations	2,893	6,250	4,963	2,273	2,235
Balance of reserve at end of period	$11,900	$11,404	$11,406	$8,987	$8,321
Ratio of net charge-offs to average loans outstanding	.38%	.97%	.73%	.31%	.54%
Ratio of reserve to total loans outstanding	1.69%	1.86%	1.70%	1.64%	1.72%

A. 2. The required information is incorporated by reference to pages 16 and 17 of the 1999 Annual Report.

B. Allocation of Reserve for Loan Losses:

Table 11

(Amounts in Thousands, Except Percent Data)

	December 31									
	1999		1998		1997		1996		1995	
Commercial, Financial and Agricultural	$ 4,919	43%	$ 4,054	40%	$ 4,795	42%	$3,167	45%	$3,465	46%
Real Estate - Mortgage	2,578	39%	2,297	39%	2,819	35%	1,956	33%	1,751	33%
Consumer	1,413	18%	1,378	21%	1,979	23%	1,567	22%	1,280	21%
Unallocated	2,990	N/A	3,675	N/A	1,813	N/A	2,297	N/A	1,825	N/A
Total	$11,900	100%	$11,404	100%	$11,406	100%	$8,987	100%	$8,321	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 9 of this report.

B. Not applicable.

C. Not applicable.

D. The required information is incorporated by reference to page 38 of the 1999 Annual Report and as follows:

Maturities of Time Deposits of $100,000 or more

Table 12

(Amounts in Thousands)

	1999
Three months or less	$ 34,958
Over Three to Six Months	24,644
Over Six to Twelve Months	29,738
Over Twelve Months	21,487
Total	$110,827

E. Not applicable.

VI. RETURN ON EQUITY AND ASSETS

A. The required information is incorporated by reference to page 10 of the 1999 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

	1999		1998		1997	
	Amount	Rate	Amount	Rate	Amount	Rate
At year-end	$127,762	3.99%	$47,680	3.97%	$55,056	4.28%
Average during year	58,365	3.26%	51,457	4.45%	59,462	4.41%
Maximum month-end balance	127,762		55,755		63,782	

B. Long-Term Advances From the FHLB and Long-Term Debt

The Company's banking subsidiary is a member of the FHLB and as such has 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, 1999 and December 31, 1998. 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.

ITEM 2. PROPERTIES

FIRST COMMUNITY BANK, N. A.

The principal offices of the Corporation and FCBNA are located at One Community Place, Bluefield, Virginia, where the Company owns and occupies approximately 36,000 square feet of office space. Additional details regarding the physical location and number of banking offices is located on pages 54 - 55 in the 1999 Annual Report and incorporated herein by reference. The Corporation's banking subsidiary owns in fee 30 offices while others are leased or are located on leased land. United First Mortgage, Inc., a wholly-owned subsidiary of FCBNA, maintains ten leased office facilities in eastern Virginia throughout a geographic area ranging from Virginia Beach, Virginia to Harrisonburg, Virginia.

ITEM 3. LEGAL PROCEEDINGS

The Registrant and its subsidiary (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. FCFT, 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 for the protection and 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 funds held in a marital trust. 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 the date of this report. Depositions and discovery in this matter are continuing and a court

ordered mediation is scheduled for May 2, 2000. A trial date is also set for October 2, 2000. Management and the Company's legal counsel are both 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.

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 claimed to have purchased rolling stock from co-defendants pursuant to an oral contract. The suit sought $150,000 in compensatory and punitive damages. The Company had no knowledge of arrangements between the two plaintiffs and was not a party to the oral contract. This civil suit was dismissed by Agreed Order on October 20, 1999.

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 1998 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.

On February 9, 2000, the Company was named as the defendant in Civil Action No. 100-0105 styled Allegheny Wesleyan Methodist Stewardship Foundation, Inc. vs. First Community Bank, N. A. The suit alleges the defendant, as Trustee, failed to execute certain investment transactions requested by plaintiff in a timely manner resulting in an approximate $475,000 loss in value of a trust for the benefit of plaintiff. The complaint further alleges the Trustee assessed account management fees beyond the value of services to the trust account. The suit seeks recovery of the aforementioned alleged losses, loss of income of $33,000, removal of the defendant as Trustee, and unspecified punitive damages. The Company, as defendant, is currently assessing this matter and is preparing for defense of this suit. While the ultimate outcome of this matter cannot be determined, both the Company and legal counsel believe the Bank has strong defenses to the allegations and believe that it is unlikely that an adverse outcome in this suit would result in a material adverse effect on the financial condition or results of operation of the Company.

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 affect 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 1999.

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 1998 and 1999. Also, presented below are the book value and cash dividends paid per share as of and for each quarter of 1998 and 1999. The number of common stockholders of record on December 31, 1999 was 2,182 and outstanding shares totaled 8,726,836.

Table 14

	Bid		Book Value	Cash Dividends
1998	High	Low	Per Share	Per Share
First Quarter	$23.68	$19.58	$11.34	$.20
Second Quarter	34.40	28.80	11.21	.20
Third Quarter	34.20	24.80	11.48	.20
Fourth Quarter	27.00	21.20	11.60	.24
				$.84
1999				
First Quarter	$23.20	$20.70	$11.75	$.20
Second Quarter	22.90	18.50	11.60	.21
Third Quarter	23.50	18.88	11.74	.22

Fourth Quarter	21.38	18.00	11.86	.25
				$.88

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, and 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 subsidiary 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, 1999, the net profits available for distribution to the shareholders as dividends without regulatory approval were approximately $8.4 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 10 of the 1999 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 8 through 22 of the 1999 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The required information is incorporated by reference to pages 19 and 20 of the 1999 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required information is incorporated by reference to pages 24 through 50 of the 1999 Annual Report.

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

A Form 8-K was previously filed on February 28, 2000 and is incorporated herein by reference.

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 2000 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 through 9 of the Proxy Statement relating to the 2000 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

through 11 of the Proxy Statement relating to the 2000 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 2000 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 2000 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 28, 2000 are incorporated by reference to pages 24 through 50 of the 1999 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 1999 Consolidated Financial Statements.

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.

(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.

(10) Material contracts - to be filed by amendment

(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 1999 Annual Report to Stockholders and is incorporated herein by reference.

(13) Annual Report to Security Holders

(21) Subsidiary of Registrant:

First Community Bank, N.A. (a National Association organized under the laws of the United States)

(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/ James L. Harrison, Sr.
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/ John M. Mendez
Principal Accounting Officer

Table 15

Signature	Title	Date
/s/ Sam Clark (Sam Clark)	Director	03/29/2000
/s/ Allen T. Hamner (Allen T. Hamner)	Director	03/29/2000
/s/ James L. Harrison, Sr. (James L. Harrison, Sr.)	President, Chief Executive Officer and Director (Principal Executive Officer)	03/29/2000
/s/ B.W. Harvey (B.W. Harvey)	Director	03/29/2000
/s/ I. Norris Kantor (I. Norris Kantor)	Director	03/29/2000
/s/ John M. Mendez (John M. Mendez)	Vice President, Chief Financial Officer and Director (Principal Financial Officer)	03/29/2000
/s/ A. A. Modena (A. A. Modena)	Director	03/29/2000
/s/ Robert E. Perkinson, Jr. (Robert E. Perkinson, Jr.)	Director	03/29/2000
/s/ William P. Stafford (William P. Stafford)	Chairman of the Board and Director	03/29/2000
/s/ William P. Stafford, II (William P. Stafford, II)	Director	03/29/2000
/s/ W. W. Tinder, Jr. (W. W. Tinder, Jr.)	Director	03/29/2000

Section 2: EX-13 (ANNUAL REPORT TO SHAREHOLDERS)

Exhibit 13

FINANCIAL HIGHLIGHTS

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

LOGO

EARNINGS AND DIVIDENDS

Table 1

	1999	1998	1997
Net income	$ 16,852	$ 13,101	$ 15,094
Basic earnings per share*	1.92	1.49	1.71
Cash earnings per share*	2.12	1.69	1.85
Cash dividends per share*	.88	.84	.83
Return on average equity	16.23%	13.02%	16.05%
Return on average assets	1.62%	1.24%	1.59%

BALANCE SHEET DATA AT YEAR-END

Table 2

	1999	1998	1997
Total assets	$1,088,162	$1,053,988	$1,042,304
Earning assets	996,366	971,856	955,337
Deposits	833,258	875,996	853,507
Securities sold under agreements to repurchase	41,062	47,680	52,351
Stockholders' equity	103,488	101,719	97,842

* The per share data for 1998 and 1997 have been restated to reflect the five shares for four stock split on March 31, 1999.

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LOGO

First Community Bancshares Logo

MESSAGE TO STOCKHOLDERS

TO OUR STOCKHOLDERS:

First Community Bancshares enjoyed record setting financial performance during 1999. At the same time, significant progress was realized on several of the major initiatives of the Company's Five-Year Plan adopted in mid-1998. The Y2K issue which plagued much of corporate America during 1999 was a non-issue for your Company as we entered the Year 2000 effortlessly. With all the good news, however, the market for our stock did not escape the broad devaluation for stocks in the financial services sector with values returning to our mid-1997 levels. In the paragraphs which follow, these items as well as some additional areas of interest are presented in more detail. 1999 was a wonderful year and sets the stage for an even more exciting 2000 and the years to follow.

Net income of $16,852,000 for 1999 represents a 28.6% increase over the $13,101,000 reported for the prior year. Record setting income was the result of carefully managed net interest margins coupled with reduced provisions for loan losses and our continuing vigil in the management of operating costs. Net interest income when expressed as net interest margin for 1999 was 5.03% compared with 4.81% in 1998. The provision for loan losses for 1999 was $2,893,000 or .41% of total loans as compared with $6,250,000 for 1998 or .96% of average loans. 1998's provision for loan losses included a one-time charge of $2.9 million related to a single loan relationship secured by a commercial manufacturing facility which was foreclosed upon in the second quarter of 1998. Non-interest expense represents 2.5% of total assets as compared with 2.7% for 1998 and, when taken with total non-interest income, converts to an efficiency ratio of 44.2% continuing to place First Community Bancshares in a leadership position as to operational efficiency. Net income expressed as Return on Average Equity, which measures the effective use of stockholders' equity to produce income, was 16.23% for 1999 as compared with 13.02% for 1998. When expressed as Return on Average Assets, which measures efficiency in the use of assets to produce income, net income for 1999 was 1.62%, a 30.7% increase over Return on Average Assets of 1.24% for 1998.

Table 4

	1995	1996	1997	1998	1999
Return on Average Equity	16.77%	16.26%	16.05%	13.02%	16.23%
Return on Average Assets	1.70%	1.73%	1.59%	1.24%	1.62%

Basic earnings per common share of $1.92 for 1999 represent a 28.9% increase over the $1.49 reported for 1998. Cash earnings per common share of $2.12 for 1999 represent a $.43 per share increase over the $1.69 earned for the year 1998. Cash earnings per share is projected to become a more important measurement of the true economic financial performance of the Corporation as alternative methods of accounting for business combinations used in the past will be no longer available with the final implementation of a new business combination standard expected to be released in the fourth quarter of 2000. Cash dividends per share of $.88 for 1999 represent a 4.76% increase over dividends paid of $.84 per share for the 1998 year and a 4.82% cash on cash return based on ending market values.

Table 5

	1995	1996	1997	1998	1999
Dividends Per Share	$0.62	$0.73	$0.83	$0.84	$0.88
Basic Earnings Per Share	$1.46	$1.58	$1.71	$1.49	$1.92

During 1999, the market for stocks in the financial services sector experienced one of the worst performance years in history. The market for financial industry stocks softened during the last two quarters of 1998 and then suffered substantial decline in 1999 and, as of the date of this letter, continued falling early into 2000. As a result of notable disappointments in earnings projections by several highly visible banking companies, concern with rising interest rates and the ability of banks to respond favorably to higher rates, concern over the Y2K issue as we approached the end of 1999, increasing concern about credit quality and the impact of rising interest rates on asset quality, as well as concern about the new intense competitive environment in which banks must operate, bank stocks appear to be out of favor with the investor community and many are trading at their 1995 to 1996 price levels. Industry price-earnings ratios in single digits represent the lowest since the late 1980's when there were real asset quality issues directly impacting bank valuations. The banking industry in total continues to set records for financial performance, the industry has clearly survived both in a rising and a falling rate environment with only temporary impact on earnings, and preparation of data processing systems for the Year 2000 was both well understood and well executed. The impact of increasing interest rates on credit quality short of a recession should not be a concern as the industry is better prepared for a downturn in credit quality with low levels of problem assets, relatively high reserve levels, and higher pre-provision profitability than 10 years ago. The industry has always been able to address competition head-on demonstrating a high degree of resiliency coupled with substantial capital resources and net income necessary to reposition successfully. Given these facts, however, bank stocks continue to be out of favor with investors and the stock of your Company has not escaped their wrath. At December 31, the year-end market value of First Community Bancshares, Inc. was $18.25, a 22% reduction from the $23.40 at the end of 1998 (after giving retroactive impact to the stock split in March 1999), and approximately a 26% decrease from the $24.36 at the end of 1997. Our year-end 1999 stock value represents a price earnings multiple of 9.5 as compared with 15.7 at the end of 1998. While the performance of FCBC stock is disappointing, it must be recognized that we participate in a broader market for investor dollars and as goes the financial services sector of that market, so do we.

Table 6

	1995	1996	1997	1998	1999
			(in thousands)		
Market Value Per Share	$ 16.90	$ 17.66	$ 24.36	$ 23.40	$ 18.25
Stockholders' Equity	$80,393	$89,258	$97,842	$101,719	$103,488

Included in net income for 1999 was $1.1 million partial recovery of the $3.4 million charge-off in 1996 related to a check kiting scheme. The $1.1 million recognized in 1999 was net of tax with the total recovery of $1.8 million recognized in the fourth quarter of 1999, or 52.9% of the 1996 loss. The terms of the agreement with the customer group who perpetrated the fraud calls for payments in addition to that recognized in 1999 of approximately $2 million to be realized over the next 10 years. The present value of all consideration received and to be received in this settlement agreement is estimated to be in excess of $3.2 million representing 94% of the $3.4 million in losses charged off in 1996.

First Community Bank began preparing for the Year 2000 conversion in mid-1997. Internal hardware and software used by the Company is state-of-the-art and remediation to prepare for the end of 1999 was minimal. As was the case for the financial services sector, First Community experienced no Y2K disrup-

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tions and midnight on December 31, 1999 was simply another routine nightly processing evening with the "only ball dropped being the one in Times Square."

During April 1999 all four banking subsidiaries of your Company were merged into a newly chartered national association, First Community Bank, N. A. Consolidation of the banking subsidiaries not only resulted in some initial

efficiencies, but over time will allow for substantial restructuring which will enable us to enjoy additional efficiencies while providing increased services. In addition, in April the Company moved to its new corporate offices located in Bluefield, Virginia. This 36,000 square foot facility will ultimately house all Corporate support personnel as well as our Trust and Financial Services Division. Consolidating operations previously housed in four separate facilities into the Corporate Center will not only improve internal communication but will also provide for a much more effective use of both human and other resources. In the future, the addition of other support personnel will allow non-customer sensitive operations to be consolidated so that local banking personnel will be able to devote their full time and attention to customer service.

Table 7

	1995	1996	1997	1998	1999
			(Amounts in millions)		
Total Assets	$780.2	$837.6	$1,042.3	$1,054.0	$1,088.2
Earnings Assets	$723.6	$775.2	$ 955.3	$ 971.9	$ 996.4

On September 28, 1999, the Company acquired United First Mortgage, Inc. ("UFM"), a Richmond, Virginia-based mortgage brokerage firm. UFM operates nine offices throughout Virginia and specializes in governmental residential lending programs. The combination of UFM's expertise in mortgage origination together with the products which First Community offers will result in increased residential mortgage loan business for the Company as well as provide new opportunities for other banking products and services to be offered in UFM's primary markets.

The Company's Five-Year Plan calls for increased fee-based activities as well as compensation programs which are purely performance based. Initiatives completed during 1999 include the Company's purchase of an equity interest in the Virginia Bankers Insurance Center, LLC adding to our array of financial services and providing new sources of fee-based revenue. Development of executive retention programs, which were completed in 1999, represent an attempt to provide your Corporation with the human resource leadership critical for success in the future. Although in the initial stages, a new stakeholders focused compensation and incentive program provides the mechanisms necessary to migrate the Company from a traditional financial services compensation program to one which is strictly based on pay for performance. Creating new sources of fee-based services and ensuring that compensation dollars are expended based upon performance both will ultimately result in the creation of increased long-term shareholder value.

The financial services industry continues on a path of consolidation where the very large become even larger in pursuit of critical mass, anticipating operational efficiencies which would all but guarantee future success. While these operational efficiencies were never anticipated to be immediate, in a significant number of cases such efficiencies simply have not been realized and, to compound the problem, the level of customer service has suffered. Our Five-Year Plan calls for an internal revolution with every staff member at First Community Bank focused on raising the level of customer service to a place second to none in our industry and developing meaningful, mutually beneficial relationships with our most valuable customers. The quality of service not only includes the availability of various access channels for customers, both brick and mortar and electronic, but even more importantly it includes the attitude of all of the individuals at First Community's end of the service equation. Raising the bar on service quality is a never ending process but one that is necessary for our success in the future. First Community enjoys a wonderful heritage full of history and values. Our transition into a more powerful financial institution which will continue to enjoy success in the new millennium is being carefully orchestrated so as not to damage that rich heritage.

In this the first year of the new century, success depends on being both relevant to our customers and communities and efficient in our operations. Change is not an event but it is our way of life, our only certainty in the world today. To ensure success, reacting to change positively is not good enough; we must become proactive agents of change, causing it to happen. Every process, every procedure must continually be on trial as we search for more

effective and more efficient ways to provide meaningful products and services to an ever increasingly sophisticated customer base which continually raises its expectations. First Community is well equipped with the economic and human resources necessary to turn the challenges of the future into financial success. With the rich heritage we enjoy, with roots deep in the communities we serve, with shareholders focused on long-term success, and with employees who react to challenges as unrecognized opportunities, we look forward to a future of continued record setting performance.

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

PHOTO

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

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

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INTRODUCTION

This discussion should be read in conjunction with the consolidated financial statements, notes and tables included throughout this report and the First Community Bancshares, Inc. (the "Company" or "First Community") 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 forward-looking statements.

First Community is currently a multi-state holding company headquartered in Bluefield, Virginia. With total resources of $1.088 billion at December 31, 1999, First Community provides financial, mortgage brokerage and origination and trust services to individuals and commercial customers through 31 full-service banking locations in West Virginia, Virginia and North Carolina as well as nine mortgage brokerage facilities operated by United First Mortgage, Inc.

REORGANIZATION AND ACQUISITIONS

Effective with the close of business on April 30, 1999, the Company completed the merger of all affiliate banks of First Community Bancshares, Inc. into a single national association. Subsequent to the merger, all banking operations are being conducted within First Community Bank, N.A., a national association subject to the supervision of the Office of the Comptroller of the Currency. The merger was designed to enhance operational efficiency and streamline regulatory considerations.

On September 28, 1999, First Community Bank, N.A. ("FCBNA"), the Company's wholly-owned banking subsidiary, acquired 100% of the common stock of United First Mortgage, Inc. ("UFM") headquartered in Richmond, Virginia. The addition of the mortgage brokerage operations of UFM added nine additional facilities to the Virginia operations of FCBNA. The operations of UFM cover a geographic region along a corridor of Interstates 64 and 81 that range from Virginia Beach, Virginia to Harrisonburg, Virginia. The acquisition was accounted for as a "purchase" transaction. "Purchase" accounting does not require restatement of prior years' results and, accordingly, the results of operation of UFM are reflected from the date of acquisition forward.

STOCK SPLITS

The Company's common stock was split five shares for four on March 31, 1997, March 31, 1998, and on March 31, 1999. All share and per share data in this report have been retroactively adjusted to reflect the affect of these three stock splits, all of which were effected through 25% stock dividends.

SUMMARY FINANCIAL RESULTS

Table 9

	NET INCOME
'95	$12.8
'96	13.9
'97	15.1
'98	13.1
'99	16.9

Net income for 1999 was $16.9 million, up $3.75 million from $13.1 million in 1998 and up $1.76 million from 1997 net income of $15.1 million. Basic earnings per share also increased to a record level of $1.92 per share, up from $1.49 and $1.71 in 1998 and 1997, respectively. Cash earnings per share for 1999 were $2.12, up from $1.69 in 1998 and $1.85 in 1997. Cash earnings per share represent earnings per share (EPS) adjusted for non-cash charges such as amortization of goodwill and other intangibles.

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The increase in net income between 1998 and 1999 represents a combination of positive factors including growth of $1.2 million in net interest income, a $3.4 million reduction in the provision for loan losses and a $1.3 million reduction in operating expenses. The Company also realized a $1.8 million recovery on check clearing losses dating back to 1996.

During the current year, a greater emphasis was placed on deposit rates and liability management, which led to a reduction in interest expense and the overall cost of funds. The Company also realized significant increases in the loan portfolio and improved asset quality, resulting in an increase in the net interest margin from 4.81% in 1998 to the 1999 level of 5.03%. The increase in net interest margin is reflective of the reduction in interest cost on deposits and an increase in the Company's loan-to-deposit ratio.

The $1.99 million decrease in net income between 1997 and 1998 is attributable to a $2.9 million charge to the provision for loan losses associated with a commercial loan foreclosure in 1998 and an approximate $4.0 million increase in operating costs and intangible amortization associated, in part, with bank and branch acquisitions throughout 1997.

Table 10

	RETURN ON AVERAGE ASSETS (%)
1995	1.7%
1996	1.73
1997	1.59
1998	1.24
1999	1.62

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 1.62%, up from 1.24% in 1998 and 1.59% in 1997. These increases in ROA relate, in large part, to an increased emphasis in controlling deposit costs as well as operational efficiency improvements and the previously discussed recovery of check collection losses, which were incurred in 1996. ROE for the Company remained strong in 1999 at 16.23% and reflects an increase from 13.02% in 1998 and 16.05% in 1997. The ROE reflects the combined affects of strong operational earnings performance and check clearing recoveries in 1999.

Table 11

	RETURN ON AVERAGE EQUITY (%)
1995	16.77%
1996	16.26
1997	16.05
1998	13.02
1999	16.23

FIVE-YEAR SELECTED FINANCIAL DATA

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

Table 12

	1999	1998	1997	1996	1995
BALANCE SHEET SUMMARY (AT END OF PERIOD):					
Loans, net of unearned income.......	$ 704,096	$ 611,493	$ 671,817	$547,703	$485,151

Reserve for loan losses............	11,900	11,404	11,406	8,987	8,321
Securities..........................	290,873	277,210	270,969	236,441	246,578
Total assets........................	1,088,162	1,053,988	1,042,304	837,597	780,235
Deposits............................	833,258	875,996	853,507	643,497	622,723
Other indebtedness..................	10,218	18,176	24,330	15,000	15,000
Stockholders' Equity................	103,488	101,719	97,842	89,258	80,393
SUMMARY OF EARNINGS:					
Total interest income...............	$ 76,492	$ 81,213	$ 75,834	$ 64,941	$ 58,954
Total interest expense..............	32,250	38,128	32,890	26,933	23,482
Provision for loan losses...........	2,893	6,250	4,963	2,273	2,235
Non-interest income.................	10,732	11,182	8,661	9,070	7,214
Non-interest expense................	27,457	28,752	24,672	24,358	22,694
Income tax expense..................	7,772	6,164	6,876	6,530	4,968
Net Income..........................	16,852	13,101	15,094	13,917	12,789
PER SHARE DATA:					
Basic earnings per common share.....	$ 1.92	$ 1.49	$ 1.71	$ 1.58	$ 1.46
Diluted earnings per common share...	1.91	1.49	1.71	1.58	1.46
Cash earnings per share.............	2.12	1.69	1.85	1.63	1.52
Cash dividends......................	.88	.84	.83	.73	.62
Book value at year-end..............	11.86	11.60	11.08	10.11	9.20
SELECTED RATIOS:					
Return on average assets............	1.62%	1.24%	1.59%	1.73%	1.70%
Return on average equity............	16.23%	13.02%	16.05%	16.26%	16.77%
Dividend payout.....................	45.83%	56.38%	48.54%	46.20%	42.47%
Average equity to average assets....	9.96%	9.50%	9.90%	10.64%	10.12%
Risk based capital to risk adjusted assets............................	13.22%	13.25%	11.96%	17.02%	17.29%
Leverage ratio......................	8.25%	7.37%	6.96%	10.33%	9.86%

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, 1999, First Community's common stock price was $18.25, a decrease of 22.0% from the split-adjusted December 31, 1998 closing price of $23.40.

Book value per common share was $11.86 at December 31, 1999, compared with $11.60 at December 31, 1998, and $11.08 at the close of 1997. The year-end market price for First Community common stock of $18.25 represents 154% of the Company's book value as of the close of the year and reflects total market capitalization of $159.3 million. Utilizing the year-end market price and 1999 basic earnings per share, First Community common stock closed the year trading at a price/earnings multiple of 9.5 times basic earnings per share.

Dividends for 1999 totaled $.88 per share, up $.04 or 4.76% from the $.84 paid in 1998. The 1999 dividends resulted in a cash yield on year-end market of 4.82%.

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Table 13

	DIVIDENDS PER SHARE
1995	$0.62
1996	0.73
1997	0.83
1998	0.84
1999	0.88

MARKET PRICE AND DIVIDENDS

Table 14

1999	BID HIGH	BID LOW	BOOK VALUE PER SHARE	CASH DIVIDENDS PER SHARE
First Quarter	$23.20	$20.70	$11.75	$.20
Second Quarter	22.90	18.50	11.60	.21
Third Quarter	23.50	18.88	11.74	.22
Fourth Quarter	21.38	18.00	11.86	.25
				$.88
1998				
First Quarter	$23.68	$19.58	$11.34	$.20
Second Quarter	34.40	28.80	11.21	.20
Third Quarter	34.20	24.80	11.48	.20
Fourth Quarter	27.00	21.20	11.60	.24
				$.84

NET INTEREST MARGIN

Net interest margin measures net interest income as a percentage of average earning assets. In 1999, net interest margin recovered to 5.03% for the year from 4.81% in 1998 but below the 5.25% level attained in 1997. The current year's increase was due in large part to deposit rate control measures instituted in the latter part of 1998 and a $92.6 million increase in outstanding loans. The cost of funds declined from 4.57% in 1998 to 4.0% in 1999 and contributed to a 4.9% decrease in retail deposits. Also during 1999, additional funds were invested in the securities portfolio in maturity and sector distributions to enhance the portfolio performance. In the second half of 1999, significant increases in the loan portfolio were then funded with wholesale advances from the Federal Home Loan Bank.

Table 15

	NET INTEREST MARGIN
1995	5.38%
1996	5.39
1997	5.25
1998	4.81
1999	5.03

NET INTEREST INCOME

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

On a tax equivalent basis, net interest income increased $1,250,000 or 2.7% in 1999 and $726,000 or 1.6% in 1998. Average earning assets decreased 1.8% in 1999 after increasing 10.9% in 1998. The current year decrease of $17.5 million in earning assets was primarily the result of reductions in interest bearing balances and federal funds sold. This occurred in reaction to deposit level decreases and the general repricing of the interest bearing deposit portfolio to achieve desired net interest margins.

The increase in tax equivalent net interest income for 1999 was driven by the declining cost of funds which exceeded the overall decline in asset yield by approximately 24 basis points and resulted in an additional $1.3 million in tax

equivalent net interest income during 1999. The modest increase in tax equivalent net interest income in 1998 was impacted by the sale of approximately $14.0 million in credit card revolving loan accounts during 1998 which reduced interest and fees on loans approximately $747,000 in comparison to 1997. 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 from the credit card line of business.

Table 16

	EQUIVALENT NET INTEREST INCOME
1995	$37,759
1996	40,395
1997	45,700
1998	46,426
1999	47,676

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 type, 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 $2.9 million in 1999, $6.3 million in 1998 and $5.0 million in 1997. 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 was curtailed in 1998 and losses associated with these types of retail lending have been substantially reduced.

The current year provision of $2.9 million, although substantially reduced in comparison to 1998

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and 1997, reflects provisions in response to increases in outstanding loan balances at December 31, 1999 and management's estimate of the risk profile of the portfolio.

NON-INTEREST INCOME

Non-interest income consists primarily of fiduciary income on trust services and service charges on deposit accounts. Non-interest income totaled $10.7 million in 1999, a $450,000 decrease or 4.5% from the $11.2 million in 1998 and a $2.0 million or 23.0% improvement over the 1997 total of $8.7 million.

The reduction in total non-interest revenue in 1999 of $450,000 is due largely to a $1,357,000 decline in other charges and fees relative to the Company's credit card portfolio which was sold in 1998, a $1,062,000 pension termination gain occurring in the prior year and the recognition of a $1.2 million gain on the sale of the credit card portfolio in 1998. These reductions are partially offset by a $1.8 million recovery recognized in the current year of check clearing losses which were incurred in 1996, and the acquisition of United First Mortgage which added $931,000 in revenues on the origination and sale of mortgage loans.

Total non-interest revenue from continuing sources increased slightly by $160,000 which is largely due to an increase in fiduciary income of $410,000 less a $200,000 reduction in service charges on deposit accounts and other service charges, commissions and fees.

Higher levels of non-interest income for 1998 over 1997 include a pension termination gain of $1,062,000 (net of federal excise tax of $764,000) as a result of the Company's termination of its Defined Benefit Pension Plan, which was completed in the first quarter of 1998. Also 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 and by the end of 1999 the outstanding balance of these accounts was reduced to $669,000.

Service charges on deposit accounts are the largest source of non-interest income. Service charge income totaled $3.6 million in 1999, a decrease of $106,000 or 2.8% from 1998. This contrasts with a 13.9% increase of $457,000 between 1998 and 1997 which is reflective of the full year of operations during 1998 of facilities added during 1997 which included Blue Ridge Bank in early 1997 and branches acquired later in that year.

Other service charges, commissions and fees declined by 50% in 1999 versus 1998. This decline was largely a result of the reduced transaction fees of $1,357,000 related to the previously mentioned sale of the credit card portfolio.

Table 17

	1995	1996	1997	1998	1999
			(in thousands)		
Fiduciary Revenues	$1,621	$1,731	$1,678	$1,682	$2,092

Fiduciary income totaled $2.1 million in 1999 versus $1.7 million in both 1998 and 1997. A modest increase in Trust assets, particularly in the area of retirement accounts, plus an increase in estates under management, resulted in the twenty-three percent increase in fiduciary income in 1999. 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 $27.5 million in 1999, compared with $28.8 million and $24.7 million in 1998 and 1997, respectively. The decline in non-interest expense in 1999 of $1.3 million relates largely to the elimination of the operating costs associated with the

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credit card division of $1.25 million. Additionally, savings were generated through the application of a more centralized purchasing environment and the introduction of technology for the electronic storage and retrieval of reports which significantly reduced paper costs and the aggregate cost of supplies, which declined by $425,000 in 1999. The substantial increase in 1998 operating costs was attributable to the full year costs of Blue Ridge Bank and various branches in 1998 versus the partial year of operation of these offices 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 1997 levels.

Salaries and employee benefits increased $890,000 or 7.3% when comparing 1999 with 1998 and $906,000 in 1998 in comparison to 1997. These increases relate almost exclusively to the addition of United First Mortgage, Inc. in 1999 and Blue Ridge Bank and various branches acquired in 1997. The effect of the three months of operations of the UFM facilities in 1999 resulted in additional personnel costs of approximately $811,000 in 1999. The effect of a full year of operations of Blue Ridge Bank and branches acquired in 1997 resulted in an additional $1.1 million in personnel costs in 1998 when compared to 1997. Blue

Ridge accounted for an additional $521,000 of this total while the branch acquisitions added $597,000 in 1998.

Occupancy expense increased $185,000 or 9.5% between 1998 and 1999. The acquisition of United First Mortgage resulted in an increase of $84,000 in the current year while increases of $87,000 were noted in other categories including maintenance, insurance, and depreciation. When comparing 1997 to 1998 occupancy cost increased $264,000 or 15.7% as a result of the addition of Blue Ridge Bank and branches acquired in 1997.

The $222,000 decrease in furniture and equipment cost in 1999 is reflective of the reduced maintenance on newer equipment used in check processing, the centralization of functions relative to the acquisition of Blue Ridge Bank and branches in 1997 and the elimination of specialized equipment used in the credit card processing function. The 1998 increase (19.7%) in furniture and equipment expense of $323,000 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 introduction of electronic banking services implemented in 1997 and early 1998.

Table 18

	NET OVERHEAD RATIO
1995	2.27%
1996	2.22
1997	1.84
1998	2.06
1999	1.96

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 1999, 1998 and 1997 were 1.96%, 2.06% and 1.84%, respectively.

The Company's efficiency ratio also measures management's ability to control costs and maximize net revenues. The efficiency ratio is computed by dividing non-interest expense by the sum of net interest income plus non-interest income (all non-recurring items excluded). The efficiency ratios for 1999, 1998 and 1997 were 44.2%, 47.4%. and 42.2%, respectively.

INCOME TAX EXPENSE

Income tax expense totaled $7.8 million in 1999, compared with $6.2 million in 1998 and $6.9 million in 1997. The $1.6 million increase between 1998 and 1999 reflects the substantial increase in pre-tax earnings between the two periods as a result of improved net interest income, reductions in loan loss provisions and operating expenses as well as the $1.8 million recovery of check clearing losses.

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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 1999 was 31.6% as compared with 32.0% for 1998 and 31.3% in 1997.

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 Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), Student Loan Marketing Association (SLMA),

Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC).

Obligations of States and Political Subdivisions totaling $73.6 million at December 31, 1999 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 decreased from 10.05 years in 1998 to 9.63 years in 1999 with the tax equivalent yield increasing from 8.38% at year-end 1998 to 8.46% at the close of 1999. The increase in yield reflects the change in portfolio composition that shifted toward the municipal bond sector.

The investment portfolio totaling $78.8 million decreased $5.2 million between 1998 and 1999. This decrease is the result of prepayments and calls occurring as a result of the declining interest rate environment in 1998 and continuing into mid-year 1999. Portions of these cash flows were invested in new loan origination.

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, 1999, the Company had $212.1 million in securities available for sale, compared with $193.2 million at year-end 1998. 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 and corresponding decreases in Federal Funds sold and interest-bearing balances held at the Federal Home Bank.

The book value of securities available for sale exceeded market value at year-end 1999 by $9.1 million. The decline in the market value of the securities available for sale is a direct result of overall increases in the interest rate environment, which has an inverse effect on the market value of the underlying instruments. The tax equivalent purchase yield on securities available for sale in 1999 was 6.53% and the tax equivalent purchase yield in 1998 was 6.56%. The 3 basis point decline in yield on the portfolio reflects the general decline in interest rates, which triggered above average calls and prepayments during 1998 and which were then reinvested at prevailing lower market rates. This trend continued through the first half of the current year but began to reverse in the latter part of 1999 when interest rate increases were instituted by the Federal Reserve.

The average maturity of the portfolio was 12.4 years and 15.6 years at December 31, 1999 and 1998, respectively. The declining average maturity is also the result of the above average number of calls in the agency portfolio and mortgage-backed security prepayments as a result of the declining rate environment and reinvestment in early 1999 in Agency securities with shorter final maturities. Most longer-term securities have call provisions, which could result in redemption prior to their final maturity.

LOAN PORTFOLIO

The loan portfolio is geographically diversified among loan types and industry segments. Commercial and commercial real estate loans represent 42.7% of the total portfolio. During 1999, commercial real estate loans increased as a percentage of total loans and now comprise 29.6% of the portfolio. The commercial and commercial real estate sectors increased by $53.1 million or 21.4% in 1999. Additionally, consumer loans increased by $1.7 million or 1.4% from $125.5 million at December 31, 1998 to $127.2 million at the close of 1999. Consumer loans represent 18.1% and 20.6% of the portfolio at the close of 1999 and 1998, respectively. The sector that experienced the largest percentage change was the commercial real estate portfolio, which increased by $37.6 million or 40.6% of the total increase in the loan portfolio of $92.6 million.

Loans, net of unearned income, were $704.1 million at year-end 1999. The

increase of $92.6 million represents 15.1% growth from the $611.5 million level at December 31, 1998. During 1999, a renewed emphasis on relationship management and loan development resulted in a significant increase in the total loan portfolio. In 1998 the Company experienced increased competition for commercial loans by other banks and capital market groups which 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 during 1998. This trend reversed in 1999 as interest rates rose and capital market financing slowed.

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 as the Company exited the credit card line of business.

The loan-to-deposit ratio increased to 85% at December 31, 1999 from 70% at December 31, 1998. The increase in the loan-to-deposit ratio is a result of the increases in the loan portfolio of $92.6 million coupled with a $42.7 million decline in total deposits.

Table 19

LOAN PORTFOLIO

COMMERCIAL, FINANCIAL & AGRICULTURAL	REAL ESTATE - CONSTRUCTION	REAL ESTATE - COMMERCIAL	REAL ESTATE - RESIDENTIAL	LOANS TO INDIVIDUALS
13.1%	3.5%	29.6%	35.7%	18.1%

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 available for the entire portfolio.

The reserve for loan losses represents 130% of non-performing loans at year-end 1999 versus 140% and 79% at December 1998 and 1997, respectively. When other real estate is combined with non-performing loans, reserves equal 107% of non-

performing assets at the end of 1999 versus 98% and 72% at December 31, 1998 and 1997, respectively.

Net charge-offs were $2.4 million in 1999, as compared with $6.3 million in 1998 and $4.5 million in 1997, respectively. The $3.9 million decrease in net charge-offs in 1999 is principally related to elevated charge-offs in 1998 as a result of a commercial loan charge-off of $2.9 million relating to a failed furniture assembly plant in Princeton, West Virginia in the second quarter of 1998 as well as a reduction in charge-offs associated with the credit card

portfolio that was sold in the latter part of 1998. Additionally, the current year reflects an increase in the overall level of loan quality as a result of termination of credit card lending in 1998 and a reduction in the level of indirect auto financing. 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.

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 $11.1 million at December 31, 1999. The levels of non-performing assets for the last five years are presented in the table below.

Table 20

	DECEMBER 31				
(Amounts in Thousands)	1999	1998	1997	1996	1995
Non-accrual Loans..........................	$ 7,889	$ 7,763	$ 9,988	$5,476	$4,371
Loans 90 Days or more Past Due.............	1,259	377	4,391	780	673
Other Real Estate Owned....................	1,950	3,547	1,472	2,225	929
	$11,098	$11,687	$15,851	$8,481	$5,973
Non-performing loans as a percentage of total loans..............................	1.3%	1.3%	2.1%	1.1%	1.0%
Non-performing assets as a percentage of total loans and other real estate owned...	1.6%	1.9%	2.4%	1.6%	1.2%
Reserve for loan losses as a percentage of non-performing loans......................	130.1%	140.1%	79.3%	143.7%	165.0%
Reserve for loan losses as a percentage of non-performing assets.....................	107.2%	97.6%	72.0%	106.0%	139.3%

Non-performing assets decreased $589,000 between 1998 and 1999 with a $1.6 million decrease in other real estate owned and increases reflected in both ninety days past due and non-accrual loans. The small increase in non-accrual loans is the result of the addition and removal of several commercial relationships that were brought current or liquidated and removed from non-accrual status. The volume of non-accrual loans remains near $8.0 million due to several larger loan relationships, which are slow in resolution due to pending Chapter 11 Bankruptcy proceedings. The increase in loans ninety days or more past due is the result of the addition of an $892,000 commercial loan relationship which is secured by real estate and partially backed by Farmer's Home Administration (FmHA) and Small Business Administration (SBA) guarantees. The decline in other real estate owned of $1.6 million is primarily attributable to the sale of a commercial property that was acquired through foreclosure on a furniture manufacturing company in southern West Virginia. The facility was sold in March 1999 and resulted in a $275,000 recovery of amounts previously charged off.

DEPOSITS

Total deposits at December 31, 1999 decreased $42.7 million or 4.9% when compared to December 31, 1998. The decrease in deposits is the result of a general repricing of deposits which was instituted in the latter part of 1998 and continued throughout 1999. The resultant effect was a decline in deposits, deposit cost, and the cost of funds. As a result of decreases in deposit liabilities, the Company utilized lower cost, short-term advances from the Federal Home Loan Bank to supplement the funding needs of the Company. In 1999, the average rate paid on interest bearing liabilities was 4.0%, down from 4.57% in 1998.

Average deposits totaled $854.0 million for 1999 versus $870.8 million in 1998. The largest decrease in average deposits was experienced in interest-bearing time deposits, which decreased 4.9% versus an overall deposit portfolio decrease of 1.9%. Average savings deposit accounts also decreased 3.5%. Alternatively, average non interest-bearing demand deposits increased 7.2% and average interest-bearing demand deposits experienced a 2.7% increase.

SHORT-TERM BORROWINGS

The Company's short-term borrowings consist primarily of Federal Funds purchased from the FHLB and securities sold under agreements to repurchase. This category of funding is a source of moderately priced short-term funds. Short-term borrowings increased on average $6.9 million or 13.4% from 1998 following a 13.5% decrease between 1998 and 1997. The increase in average short-term borrowings in 1999 is a direct result of the increased emphasis on liability management and controlling deposit cost to increase the net interest margin. Short-term borrowings were used to fill the gap in funding due to reduced levels of retail deposits.

OTHER INDEBTEDNESS

Other indebtedness, which represents long-term advances from the FHLB and acquisition debt to a correspondent bank decreased by $8.0 million in 1999. The decrease is attributable to the complete repayment of the acquisition debt in the second quarter of 1999. Remaining indebtedness of $10.2 million is comprised primarily of long-term advances from the FHLB to fund matched purchases of earning assets.

STOCKHOLDERS' EQUITY

Risk-based capital ratios are a measure of the Company's capital adequacy. At December 31, 1999, the Company's Tier I capital ratio was 11.96% compared with 12.0% in 1998. Risk-based capital ratios and the leverage ratio are used by 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 13.22% at the close of 1999 compared with 13.25% in 1998. Both of these ratios are well above the current minimum level of 8% prescribed for bank holding companies as depicted on Page 43.

The leverage ratio is the measurement of total tangible equity to total assets. The Company's leverage ratio at December 31, 1999 was 8.25% compared to 7.37% at December 31, 1998, both of which are well above the minimum levels prescribed by the Federal Reserve as depicted on Page 43.

TRUST AND INVESTMENT MANAGEMENT SERVICES

The company offers trust management and estate administration services through its Trust and Financial Services Division (Trust Division). The Trust Division reported market value of assets under management of $368 million and $377 million at December 31, 1999 and 1998, respectively. The Trust Division manages intervivos trusts and trusts under will, develops and administers employee benefit plans and individual retirement plans and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature and complexity of the account.

The Trust Division employs 19 professionals and support staff with a wide variety of estate and financial planning, investing and plan administration skills. Trust Division operating expenses totaled $1.3 million in 1999 and 1998. These costs are comprised primarily of salaries and related benefits, investment services, asset custody fees and the cost of information processing systems. The Trust Division is located within the Company's largest banking facility in Bluefield, West Virginia. Services and Trust development activities to other branch locations and primary markets are provided as an extension of this division through professional staff who also serve as field Trust Administrators.

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 the Company's ability to generate new deposits. The Company also has the ability to attract short-term sources of funds and draw on credit lines that have been established at financial institutions to meet cash needs.

Total liquidity of $372.1 million at December 31, 1999 is comprised of the following: cash on hand and deposits with other financial institutions of $37.8 million; securities available for sale of $212.1 million; investment securities held to maturity due within one year of $1.7 million; and Federal Home Loan Bank credit availability of $120.5 million.

INTEREST RATE SENSITIVITY, INTEREST RATE RISK 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 while maintaining an acceptable level of NII given the current interest rate environment.

The Company's primary component of operational revenue, NII, is subject to variation as a result of changes in interest rate environments in conjunction with unbalanced repricing opportunities 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 Bank seeks to control its interest rate risk (IRR) exposure to insulate net interest income and net earnings from fluctuations in the general level of interest rates. To measure its exposure to IRR, quarterly simulations of NII are performed using financial models 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, 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. Specific strategies for management of IRR have included shortening the amortized maturity of fixed-rate loans, increasing the volume of adjustable rate loans to reduce the average maturity of the Bank's interest-earning assets and monitoring the term structure of liabilities to maintain a balanced mix of maturity and repricing structures to mitigate the potential exposure. The simulation model used by the Company captures all earning assets, interest bearing liabilities and all off balance sheet financial instruments and combines the various factors affecting rate sensitivity into an earnings outlook. Based upon the latest simulation, the Company believes that it is slightly biased toward a liability sensitive position. Absent adequate management, liability positions can negatively impact net interest income in a rising rate environment or, alternatively, positively impact net interest income in a falling rate environment.

The Company has established policy limits for tolerance of interest rate risk that allow for no more than a ten-percent reduction in projected net interest income based on quarterly income simulations. The most recent simulation indicates that current exposure to interest rate risk does not exceed the Company's defined policy limits.

The following table summarizes the impact on NII and the Market Value of Equity (MVE) as of December 31, 1999 and 1998, respectively, of immediate and sustained rate shocks in the interest rate environment of plus and minus 100 and 200 basis points from the flat rate simulation. The results of the rate shocks depicted below differ from the results in quarterly simulations, in that, all changes are assumed to take effect immediately; whereas, in the quarterly income simulations, changes in interest rates take place gradually over a 24-month horizon. This table, which illustrates the prospective effects of hypothetical interest rate changes, is based upon numerous assumptions including relative and estimated levels of key interest rate factors over a twelve month time period. 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 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.

(Dollar Amounts in Thousands)

Table 21

1999

CHANGE IN INTEREST RATES (BASIS POINTS)	NET INTEREST INCOME	% CHANGE	MARKET VALUE OF EQUITY	% CHANGE
200	$43,040.5	-10.26	$ 68,527.3	-35.0
100	45,655.7	-4.81	87,584.3	-16.9
-0-	47,960.7	0.0	105,442.3	0.0
-100	49,994.4	4.2	124,308.5	17.9
-200	50,734.5	5.8	141,245.4	34.0

Table 22

1998

CHANGE IN INTEREST RATES (BASIS POINTS)	NET INTEREST INCOME	% CHANGE	MARKET VALUE OF EQUITY	% CHANGE
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

When comparing the impact of the rate shock analysis between 1999 and 1998, the 1999 changes in net interest income reflect larger variances in projected net interest income and MVE. The increased sensitivity is attributed to the increased life of certain assets and the control measures taken in the fourth quarter of 1998, which continued throughout 1999, to reduce deposit cost. As a result, the deposit repricing led to a reduction in customer deposits, a corresponding increase in short-term borrowings and an increase in the overall duration of equity. Consequently, the hypothetical changes in interest rates have a larger effect on net interest income and the market value of equity.

VIRGINIA BANKERS INSURANCE CENTER

In 1999 the company purchased a 3.17% interest in the Virginia Bankers Insurance Center ("VBIC"), a limited liability company organized to provide

access to the insurance line of business for participating banks. This consortium of over sixty banks resulted in the formation of a pool of capital which will be used to enable the participating banks to collectively enter the property, casualty, life, and health insurance sales market. It is expected that insurance products will be available in the bank's branches through VBIC sometime in late 2000. The company believes that through its extensive network

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of bank branches and its thousands of customer relationships, it will be in a position to market significant volumes of insurance, particularly property and casualty insurance for homes and automobiles. The company's entry into the insurance line of business is designed to provide new sources of fee revenue and further solidify the financial relationship between the company and its present customers.

RECENT LEGISLATION

Congress completed this past year the long-awaited financial modernization bill and the bill became law, known as the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the "Act") with an enactment date of November 12, 1999. The Act is expected to have a significant impact on financial services companies, including banks such as First Community. The Act's most publicized provisions, which generally take effect on March 11, 2000, include: a) the elimination of many federal and state legal barriers to affiliations among banks, securities firms, insurance companies and other financial services providers; b) the establishment of a statutory framework pursuant to which full affiliations can occur between these entities; and c) provision for financial services organizations with flexibility in structuring new affiliations through a Financial Holding Company ("FHC") structure with the Federal Reserve Bank as the umbrella regulator. The overall thrust of the Act is to remove the historic laws that separate commercial banking from other financial services organizations.

The Act establishes the requirements for permitting a bank holding company to engage in the new financial activities and affiliations. A bank holding company may elect to become an FHC if all of its subsidiary banks are well capitalized and well managed and have received a satisfactory or better Community Reinvestment Act rating. Thereafter, an FHC may engage in either denovo or through an acquisition, in any activity that has been, as defined by the Act, and determined by the Federal Reserve Bank to be financial in nature or incidental or complementary to such financial activity.

The Act also creates a new Investment Bank Holding Company ("IBHC") structure under the Securities Exchange Act of 1934. This provision is designed to implement a new concept of supervision by the Securities Exchange Commission of broker/ dealer holding companies that do not control depository institutions.

The Act further provides for functional regulation of bank securities activities. Among many other matters, it repeals the exemptions from the definition of broker and dealer under the Federal Securities Law that currently apply to banks, generally subjecting banks and their affiliates and subsidiaries to the same regulation as all other providers of securities products. These provisions take effect 18 months after the date of enactment. However, the Act retains certain limited exemptions to facilitate certain activities in which banks have traditionally engaged. These exemptions include third-party broker arrangements, trust activities, traditional banking transactions such as commercial paper and exempted securities, employer and shareholder benefit plans, sweep accounts, affiliate transactions, private placements, safekeeping and custody services, asset-backed securities, and identified banking products such as traditional deposit accounts.

The Act amends the Investment Advisors Act of 1940 and the Investment Company Act of 1940 to subject banks and bank holding companies that advise mutual funds to the same regulatory scheme as other advisors to mutual funds. It also requires banks to make additional disclosure when a mutual fund is sold or advised by a bank. These regulatory and disclosure provisions likewise take effect 18 months after the date of enactment.

If certain requirements are met and regulatory approval is obtained, national banks of any size are permitted to engage, through a financial subsidiary, in

financial activities authorized by the Act, which specifically excludes certain types of activities (including real estate investment and development) which may be done only in FHCs.

The Act prohibits new unitary savings and loan holding companies from engaging in non-financial activities or affiliating with non-financial entities. This prohibition applies to a company that becomes a unitary savings and loan holding company pursuant to applications filed after May 4, 1999. Previously chartered unitary savings and loan holding companies and applicants are grandfathered.

Any federal savings association chartered or in operation before the date of enactment or with branches in operation before the date of enactment in one or more states, may convert, at its option, with the approval of the Office of the Comptroller of the Currency or the appropriate state bank supervisor, into one or more national state banks, each of which may encompass one or more of the branches of the federal savings association in operation before the date of enactment in one or more states. This conversion will be available only for resulting national or state banks which meet specified financial and capital requirements.

One of the more significant provisions of the Act is the authorization of financial subsidiary activities which includes the establishment of insurance agency activities for such subsidiaries without geographic restriction. The Company does not presently maintain any financial subsidiaries as comprehended by the Act and has not organized an FHC. The Company is presently evaluating opportunities afforded under the Gramm-Leach-Bliley Act.

YEAR 2000 CENTURY DATE CHANGE

The arrival of the year 2000 and the associated century date change ("CDC") were expected by many experts and the public, in general, to present potential threats to business and many aspects of everyday life due to the possibility that some information systems and imbedded computer chips might not function properly due to truncated two-digit year date fields. In response to this threat, the Company initiated an exhaustive study of information systems and electronic devices with embedded chips utilized throughout the Company's operations. This project involved the identification, remediation, testing and implementation of new, upgraded or remediated systems and equipment to guard against failures associated with the CDC threat. Through these efforts the Company was able to successfully transcend the CDC with no interruption of service, no processing failures, no loss of data or other negative consequences associated with the CDC (Y2K) threat. In achieving this state of year 2000 compliance, the Company budgeted and expended approximately $150,000 on new equipment, renovated systems and back-up processing arrangements. In addition, the Company incurred human resource opportunity cost through the realignment of duties of existing personnel to achieve compliance. However, the overall cost of the project did not have a material financial impact on the results of operations of the Company in any fiscal year.

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CONSOLIDATED FINANCIAL STATEMENTS

Table 23

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CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Share Data)

Table 24

	DECEMBER 31	
	1999	1998
ASSETS		
Cash and due from banks	$ 36,400	$ 33,943
Interest bearing balances -- FHLB	1,391	57,523
Federal funds sold	6	25,630
Securities available for sale (amortized cost of $221,226, 1999; $191,131, 1998)	212,105	193,194
Investment securities held to maturity:		
U.S. Treasury securities	100	100
U.S. Government agencies and corporations	3,663	7,546
States and political subdivisions	73,640	75,009
Other securities	1,365	1,361
Total investment securities (market value, $78,917, 1999; $88,256, 1998)	78,768	84,016
Total loans, net of unearned income	704,096	611,493
Less reserve for loan losses	11,900	11,404
Net loans	692,196	600,089
Premises and equipment	18,630	17,986
Other real estate owned	1,950	3,547
Interest receivable	8,090	7,030
Other assets	15,178	6,684
Intangible assets	23,448	24,346
TOTAL ASSETS	$1,088,162	$1,053,988
LIABILITIES		
Deposits:		
Demand	$ 115,288	$ 123,992
Interest-bearing demand	133,073	137,169
Savings	138,107	148,461
Time	446,790	466,374
Total deposits	833,258	875,996
Interest, taxes and other liabilities	13,436	10,417
Federal funds purchased	86,700	--
Securities sold under agreements to repurchase	41,062	47,680
Other indebtedness	10,218	18,176
TOTAL LIABILITIES	984,674	952,269
STOCKHOLDERS' EQUITY		
Common stock, $1 par value in 1999 and 1998, 10,000,000 shares authorized; 8,991,586 shares issued in 1999 and 1998, respectively; 8,726,836 and 8,767,552 shares outstanding in 1999 and 1998, respectively	8,992	8,992
Additional paid-in capital	34,264	34,306
Retained earnings	69,372	60,250
Treasury stock, at cost	(2,945)	(1,403)
Unallocated ESOP shares	(722)	(1,664)
Accumulated other comprehensive (loss) income	(5,473)	1,238
TOTAL STOCKHOLDERS' EQUITY	103,488	101,719
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,088,162	$1,053,988

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME

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

Table 25

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
INTEREST INCOME			
Interest and fees on loans	$58,036	$62,323	$59,753
Interest on securities available for sale	13,217	9,060	9,128
Interest on investment securities:			
U.S. Treasury securities	41	117	337
U.S. Government agencies and corporations	269	1,034	2,333
States and political subdivisions, tax exempt	3,940	3,989	3,205
Other securities	104	90	85
Interest on federal funds sold	403	1,594	949
Interest on deposits in banks	482	3,006	44
TOTAL INTEREST INCOME	76,492	81,213	75,834
INTEREST EXPENSE			
Interest on deposits	29,137	34,374	28,773
Interest on short-term borrowings	2,332	2,295	2,623
Interest on other indebtedness	781	1,459	1,494
TOTAL INTEREST EXPENSE	32,250	38,128	32,890
NET INTEREST INCOME	44,242	43,085	42,944
Provision for loan losses	2,893	6,250	4,963
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	41,349	36,835	37,981
NON-INTEREST INCOME			
Fiduciary income	2,092	1,682	1,678
Service charges on deposit accounts	3,640	3,746	3,289
Other service charges, commissions and fees	1,476	2,935	2,979
Net securities gains	--	25	6
Other operating income	3,524	1,732	709
Pension termination gain	--	1,062	--
TOTAL NON-INTEREST INCOME	10,732	11,182	8,661
NON-INTEREST EXPENSE			
Salaries and employee benefits	13,132	12,242	11,336
Occupancy expense of bank premises	2,128	1,943	1,679
Furniture and equipment expense	1,743	1,965	1,642
Goodwill and core deposit amortization	2,049	2,061	1,379
Other operating expense	8,405	10,541	8,636
TOTAL NON-INTEREST EXPENSE	27,457	28,752	24,672
Income before income taxes	24,624	19,265	21,970
Income tax expense	7,772	6,164	6,876
NET INCOME	$16,852	$13,101	$15,094

WEIGHTED AVERAGE BASIC SHARES OUTSTANDING............	8,766,209	8,800,546	8,828,791
BASIC EARNINGS PER COMMON SHARE......................	$1.92	$1.49	$1.71
DILUTED EARNINGS PER COMMON SHARE....................	$1.91	$1.49	$1.71

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Amounts in Thousands)

Table 26

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
OPERATING ACTIVITIES			
Cash flows from operating activities:			
Net income..	$ 16,852	$ 13,101	$ 15,094
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses.........................	2,893	6,250	4,963
Depreciation of premises and equipment............	1,413	1,514	1,192
Amortization of intangibles.......................	2,020	1,915	647
Net investment amortization and accretion..........	483	32	(332)
Net gain on the sale of assets....................	(832)	(1,375)	(103)
(Increase) decrease in interest receivable.........	(1,060)	658	(358)
(Increase) decrease in other assets...............	(3,668)	2,958	1,046
Decrease in other liabilities.....................	(754)	(1,033)	(2,857)
Other, net..	80	88	(51)
NET CASH PROVIDED BY OPERATING ACTIVITIES..............	17,427	24,108	19,241
INVESTING ACTIVITIES			
Cash flows from investing activities:			
Proceeds from sales of securities available for sale....	8,203	--	18
Proceeds from maturities and calls of securities available for sale..................................	30,881	100,920	24,762
Proceeds from maturities and calls of investment securities..	5,278	25,488	26,509
Proceeds from sale of credit card loans................	--	15,590	--
Purchase of securities available for sale..............	(69,611)	(132,381)	(35,090)
Purchase of investment securities......................	--	(300)	(26,447)
Net (increase) decrease in loans made to customers......	(87,986)	37,664	(27,014)
Cash (used in) provided by branch acquisitions, net....	(1,417)	--	39,658
Purchase of premises and equipment.....................	(2,222)	(726)	(2,018)
Proceeds from sale of equipment........................	82	287	16
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.....	(116,792)	46,542	394
FINANCING ACTIVITIES			
Cash flows from financing activities:			
Net (decrease) increase in demand and savings deposits..	(23,154)	28,556	(8,507)
Net (decrease) increase in time deposits...............	(19,579)	(6,351)	30,398
Net increase (decrease) in short-term debt.............	80,082	(7,376)	(23,443)
Repayment of long-term debt............................	(7,993)	(7,768)	(2,412)
Proceeds from long-term borrowings.....................	--	1,500	11,500
Acquisition of treasury stock..........................	(1,542)	(1,796)	--
Reissuance of treasury stock...........................	--	--	17
Cash paid in lieu of fractional shares.................	(18)	(27)	(22)
Dividends paid...	(7,730)	(7,415)	(7,345)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.....	20,066	(677)	186
CASH AND CASH EQUIVALENTS			
Net (decrease) increase in cash and cash equivalents....	(79,299)	69,973	19,821
Cash and cash equivalents at beginning of year..........	117,096	47,123	27,302
CASH AND CASH EQUIVALENTS AT END OF YEAR...............	$ 37,797	$ 117,096	$ 47,123

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 27

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	UNALLOCATED ESOP SHARES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE, DECEMBER 31, 1996.....	$ 32,015	$11,283	$46,815	$(1,288)	$ --	$ 433	$ 89,258
Comprehensive income:							
Net income..................	--	--	15,094	--	--	--	15,094
Other comprehensive income:							
Unrealized holding gains on securities available-for-sale, net of tax..................	--	--	--	--	--	822	822
Less reclassification adjustment for gains realized in net income, net of tax..............	--	--	--	--	--	(4)	(4)
Comprehensive income.....	--	--	15,094	--	--	818	15,912
Common dividends declared ($.83 per share)..................	--	--	(7,345)	--	--	--	(7,345)
Change from $5.00 par value to $1.00 par value.............	(23,023)	23,023	--	--	--	--	--
Reissuance of 909 treasury shares at $18.96 per share...	--	--	--	17	--	--	17
BALANCE, DECEMBER 31, 1997.....	8,992	34,306	54,564	(1,271)	--	1,251	97,842
Comprehensive income:							
Net income....................	--	--	13,101	--	--	--	13,101
Other comprehensive income:							
Unrealized holding losses on securities available-for-sale, net of tax..................	--	--	--	--	--	(11)	(11)
Less reclassification adjustment for gains realized in net income, net of tax..............	--	--	--	--	--	(2)	(2)
Comprehensive income.....	--	--	13,101	--	--	(13)	13,088
Common dividends declared ($.84 per share)..................	--	--	(7,415)	--	--	--	(7,415)
Purchase 55,914 ESOP shares at a weighted cost of $29.76 per share.......................	--	--	--	--	(1,664)	--	(1,664)
Purchase 5,156 treasury shares at $25.50 per share.........	--	--	--	(132)	--	--	(132)

BALANCE, DECEMBER 31, 1998.....	8,992	34,306	60,250	(1,403)	(1,664)	1,238	101,719
Comprehensive income:							
Net income.....................	--	--	16,852	--	--	--	16,852
Other comprehensive income:							
Unrealized holding losses on securities available-for-sale, net of tax...................	--	--	--	--	--	(6,711)	(6,711)
Less reclassification adjustment for gains realized in net income, net of tax..............	--	--	--	--	--	--	--
Comprehensive income.....	--	--	16,852	--	--	(6,711)	10,141
Common dividends declared ($.88 per share)...................	--	--	(7,730)	--	--	--	(7,730)
Purchase 71,589 treasury shares at $21.54 per share..........	--	--	--	(1,542)	--	--	(1,542)
Allocation of ESOP shares......	--	(42)	--	--	942	--	900
BALANCE, DECEMBER 31, 1999.....	$ 8,992	$34,264	$69,372	$(2,945)	$ (722)	$(5,473)	$103,488

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accounting and reporting policies of First Community Bancshares, Inc. and subsidiary (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 its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. In the Parent Company financial statements, the investment in subsidiary is stated at equity in the net assets of the 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 life of the security. 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 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, 1999 and 1998, 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 real estate loans and loan loss experience in relationship to outstanding loans to determine an adequate reserve for loan losses required for 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, and any concentration of credit in certain industries or geographic areas.

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Impaired loans are evaluated in accordance with 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. Consumer revolving credit loans that become 180 days past due are automatically charged to the reserve for 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, obtainment 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 are allocated to participant accounts over a period not to exceed seven years based upon relative employee compensation.

INTANGIBLE ASSETS

The investment in subsidiary 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 straight-line method. The unamortized balance of goodwill was $22,913,000 and $23,684,000 at December 31, 1999 and 1998, 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 $535,000 and $662,000 at December 31, 1999 and 1998, 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 1998 and 1997 financial statements have been reclassified to conform to the presentation used in preparation of the 1999 financial statements.

RECENT ACCOUNTING PRONOUNCEMENT

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", 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 embedded 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 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. Earlier application of the provisions of this Statement is encouraged but is permitted only as of

the beginning of any fiscal quarter. Management is currently in the process of evaluating the impact of Statement No. 133.

CASH FLOWS

In 1999, 1998 and 1997 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 1999, 1998 and 1997 were as follows:

Table 28

	1999	1998	1997
	(Amounts in Thousands)		
Interest	$33,175	$38,267	$32,726
Income taxes	8,195	6,744	6,433
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS			
Transfers of loans to other real estate owned	$ 1,667	$ 3,588	$ 862
Unrealized loss (gain) on securities available for sale	11,184	21	(1,375)

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NOTE 2. ACQUISITIONS

On September 28, 1999, First Community Bank, N.A. ("FCBNA"), the Company's wholly-owned banking subsidiary acquired 100% of the common stock of United First Mortgage, Inc. ("UFM"), headquartered in Richmond, Virginia. UFM is a mortgage brokerage company and when acquired had assets of approximately $6.4 million and 9 offices located in a geographic region along a corridor of Interstates 64 and 81 and ranging from Virginia Beach, Virginia to Harrisonburg, Virginia. Pursuant to the Agreement, FCBNA exchanged cash of $1.95 million for all of UFM's outstanding 3,000 common shares with provisions for additional consideration contingent upon the financial performance of UFM in subsequent years. The total initial consideration paid resulted in an intangible asset of approximately $1.2 million, which is being amortized on a straight-line basis over a 15-year period. The contingent payments to be made in subsequent years will be capitalized as goodwill upon the determination of the contingent payment amounts and amortized over the remaining useful life, if any, of the original goodwill purchase. The acquisition was accounted for under the purchase method of accounting. Accordingly, results of operations of UFM are included in the consolidated results from the date of acquisition. Subsequent to the merger, UFM operates as a wholly owned subsidiary of FCBNA. Presently, all loans originated by UFM are classified as held for sale and are included in total loans outstanding as of December 31, 1999. The loans are reviewed individually and presented at the lower of cost or market value, however, due to the short turnaround on outstanding commitments to sell these loans, and the fact that investors are identified at the point of the loan commitment, the market value is generally greater than cost. UFM does not securitize the loans that are available for sale and UFM does not retain servicing on any of the loans sold.

The following unaudited proforma financial information shows the effect of the UFM acquisition as if the transaction had been consummated on January 1, 1998:

FIRST COMMUNITY BANCSHARES, INC.

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

Table 29

	1999	1998

Net Interest Income....................................	$44,208	$43,037
Net Income..	16,718	13,371
Basic Earnings Per Common Share........................	1.89	1.50

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 30

	1999			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
		(Amounts in Thousands)		
U.S. Government agency securities....................	$149,020	$ 73	$ (5,457)	$143,636
States and political subdivisions..................	35,068	340	(2,053)	33,355
Other securities................	37,138	518	(2,542)	35,114
Total......................	$221,226	$ 931	$(10,052)	$212,105

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

Securities available for sale with market values of $175,911,000 and $65,421,000 at December 31, 1999 and 1998, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and other short-term borrowings and for other purposes.

As a condition to membership in the Federal Home Loan Bank System, the Company's wholly owned banking subsidiary, FCBNA, is required to subscribe to a minimum level of stock in the Federal Home Loan Bank ("FHLB"). At December 31, 1999, FCBNA owned approximately $5.1 million in stock in the FHLB of Atlanta, which is classified as available for sale.

The amortized cost and market value of securities available for sale by contractual maturity, at December 31, 1999, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. During 1997, sales of securities available for sale resulted in gains of $6,000; the proceeds from these sales were $18,000. There were no sales of securities available for sale during 1998 or 1999. During 1998, calls of securities available for sale resulted in a gain of approximately $4,000. The basis for evaluating the gain or loss realized is the amortized cost. The following table presents maturities of investment securities available for sale by type on both

an amortized cost and market value basis at December 31, 1999:

Table 32

	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.......................	$ 4,858	$ 380	$ --	$ 5,238	5.33%
After one year through five years......	30,395	4,998	--	35,393	6.08%
After five years through ten years.....	50,144	5,087	29,027	84,258	6.48%
After ten years........................	63,623	24,603	8,111	96,337	6.81%
Total amortized cost................	$149,020	$35,068	$37,138	$221,226	
Tax equivalent purchase yield...........	6.23%	8.21%	4.67%	6.53%	
Average maturity (in years).............	12.16	12.56	12.96	12.36	
MARKET VALUE					
Maturity:					
Within one year.......................	$ 4,839	$ 380	$ --	$ 5,219	
After one year through five years......	29,445	5,061	--	34,506	
After five years through ten years.....	48,150	5,285	26,500	79,935	
After ten years........................	61,202	22,629	8,614	92,445	
Total market value..................	$143,636	$33,355	$35,114	$212,105	

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NOTE 4. INVESTMENT SECURITIES

The following table presents amortized cost and approximate market values of investment securities at December 31:

Table 33

	1999			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(Amounts in Thousands)			
U.S. Treasury securities.............	$ 100	$ --	$ --	$ 100
U.S. Government agencies and corporations.......................	3,663	3	(59)	3,607
States and political subdivisions....	73,640	810	(613)	73,837
Other securities.....................	1,365	10	(2)	1,373
Total...........................	$78,768	$823	$(674)	$78,917

Table 34

1998			
	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

Various investment securities with an amortized cost of approximately $27,050,000 and $27,875,000, respectively, were pledged at December 31, 1999 and 1998 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; the proceeds from these calls were $1,021,000. There were no gains from calls of investment securities held to maturity during 1999. The following table presents maturities of investments by type on both an amortized cost and market value basis at December 31, 1999:

Table 35

	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..................	$100	$ 594	$ 1,012	$ --	$ 1,706	6.50%
After one year through five years.........................	--	2,268	3,474	1,065	6,807	7.49%
After five years through ten years.........................	--	801	30,117	300	31,218	8.33%
After ten years..................	--	--	39,037	--	39,037	8.82%
Total amortized cost..........	$100	$3,663	$73,640	$1,365	$78,768	
Tax equivalent purchase yield......	6.01%	6.17%	8.59%	7.74%	8.46%	
Average maturity (in years)........	.5	3.48	10.05	4.02	9.63	

Table 36

	U.S. TREASURY	U.S. GOVERNMENT AGENCIES & CORPORATIONS	STATES & POLITICAL SUBDIVISIONS	OTHER SECURITIES	TOTAL
			(Amounts in Thousands)		
MARKET VALUE					
Maturity:					
Within one year..................	$100	$ 585	$ 1,013	$ --	$ 1,698
After one year through five years.........................	--	2,225	3,530	1,073	6,828
After five years through ten years.........................	--	797	30,433	300	31,530
After ten years..................	--	--	38,861	--	38,861
Total market value...........	$100	$3,607	$73,837	$1,373	$78,917

NOTE 5. LOANS

Loans consist of the following at December 31:

Table 37

	1999	1998
	(Amounts in Thousands)	
Real estate -- commercial	$208,227	$170,669
Real estate -- construction	24,684	8,988
Real estate -- residential	251,157	228,218
Commercial, financial and agricultural	92,739	77,233
Loans to individuals for household and other consumer expenditures	127,227	125,491
All other loans	62	894
	$704,096	$611,493

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the counterparts. 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, 1999.

Financial instruments whose contract amounts represent credit risk at December 31, 1999 are commitments to extend credit (including availability of lines of credit) -- $132.1 million, and standby letters of credit and financial guarantees written -- $3.2 million. At December 31, 1999, neither the Company nor its subsidiary 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, 1999 are summarized as follows:

Table 38

	1999	
	NOTIONAL AMOUNT	RATE
	(Amounts in Thousands)	
Real estate -- commercial (fixed)................	$ 29,845	7.50 - 10.50%
Real estate -- commercial (variable).............	28,346	6.50 - 10.75%
Real estate -- construction (fixed)..............	16,646	7.75 - 11.25%
Real estate -- construction (variable)...........	21,345	8.25 - 11.00%
Real estate -- residential (fixed)...............	1,840	6.50 - 18.00%
Real estate -- residential (variable)............	7,388	6.43 - 13.00%
Commercial, financial, agricultural (fixed).......	9,312	5.60 - 13.00%
Commercial, financial, agricultural (variable)....	15,576	6.50 - 13.50%
Loans to individuals for household and other consumer expenditures (fixed)..................	3,888	5.00 - 18.00%
Loans to individuals for household and other consumer expenditures (variable)...............	1,125	7.43 - 18.00%
TOTAL......................................	$135,311	

Presently, the Company has no significant concentrations of credit risk other than geographic concentrations. Most loans in the current portfolio were 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 presence in three states including North Carolina, Virginia and West Virginia provides additional diversification against geographic concentrations of credit risk.

In the normal course of business, the banking subsidiary of the Company has made loans to directors and executive officers of the Company and its subsidiary. All loans and commitments made to such officers and directors and to companies in which they are officers or have significant ownership interest have been made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. The aggregate dollar amount of such loans was $8.6 million and $7.3 million at December 31, 1999 and 1998, respectively. New loans and payments attributable to the change from 1998 to 1999 total $3.1 million and $1.8 million, respectively. The beginning balance of $7.3 million has been restated from $9.8 million in the prior year due to the consolidation of the banking subsidiaries with and into First Community Bank, N.A. and a reduction in the number of directors.

NOTE 6. RESERVE FOR LOAN LOSSES

Activity in the reserve for loan losses was as follows:

Table 39

	1999	1998	1997
	(Amounts in Thousands)		
Balance, January 1........................	$11,404	$11,406	$ 8,987
Recoveries credited to reserve............	610	736	673
Provision for the year charged to operations.............................	2,893	6,250	4,963
Reserve acquired in acquisitions..........	--	--	1,981
	14,907	18,392	16,604
Loans charged-off.........................	3,007	6,988	5,198

Balance, December 31	$11,900	$11,404	$11,406

The Company consistently applies a monthly review process to continually evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of loan loss reserves. The total loan loss reserve is divided into two categories which apply to i) specifically identified loan relationships which are on non-accrual status, ninety days past due or more and loans with elements of credit weakness (allocated reserves) and ii) formula and unallocated reserves.

Allocated reserves are specifically targeted to cover loan relationships which are identified with significant credit weakness and for which a collateral deficiency may be present. Impaired loans are identified in accordance with Statement of Financial Accounting Standard ("SFAS") No. 5 and measured and recorded in accordance with SFAS No. 114 and SFAS No. 118. The allocated reserves established under the specific identification method are judged based upon the borrower's current operating status and projected liquidation value of pledged collateral.

Formula and unallocated reserves are available to cover the homogeneous pool of loans, which are not specifically identified as potential problems. The formula and unallocated reserve is developed and evaluated against loans in general by specific category (commercial, mortgage, and consumer). To determine the amount of reserve needed for each loan category, a rolling three-year average net loan charge-off percentage is calculated. The calculated percentage is used to determine the required reserve excluding any relationships specifically identified under the allocated reserve method. The Company's policy also requires that the formula reserve percentage be maintained at not less than 1% for each category of loans, irrespective of the historic net charge-off ratio.

The composition of First Community's allowance for loan losses was as follows at December 31, 1999 and 1998:

Table 40

	DECEMBER 31 1999	DECEMBER 31 1998
	(Amounts in Thousands)	
Specific Reserves	$ 2,195	$ 1,642
Formula and Unallocated Reserves	9,705	9,762
Total Reserves	$11,900	$11,404

The specific reserve for loan losses increased by $553,000 when comparing December 31, 1999 to December 31, 1998. The increase is primarily a function of the amount and expected realization of specific loans included in the pool of identified loans. The increase in total reserves corresponds with increases in the total loan portfolio of $92.6 million. However, a greater portion of the reserve was allocated to the pool of specifically identified loans. Total reserves to total outstanding loans decreased from 1.87% in 1998 to 1.69% at December 31, 1999.

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

Table 41

	1999	1998
Recorded investment in loans considered to be impaired	$5,851	$5,266

Loans considered to be impaired that were on a non-accrual basis	5,851	5,266
Allowance for loan losses related to loans considered to be impaired	1,297	1,019
Average recorded investment in impaired loans	5,247	5,023
Total interest income recognized on impaired loans	124	148

NOTE 7. PREMISES AND EQUIPMENT

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

Table 42

	1999	1998
	(Amounts in Thousands)	
Land	$ 5,553	$ 4,552
Bank premises	21,302	20,124
Equipment	13,690	13,906
	40,545	38,582
Less: accumulated depreciation and amortization	21,915	20,596
Total	$18,630	$17,986

NOTE 8. OTHER INDEBTEDNESS

The Company's banking subsidiary is a member of the Federal Home Loan Bank ("FHLB") of Atlanta, which provides credit in the form of overnight and long-term advances collateralized by various mortgage assets. Long-term debt from a commercial bank totaling $7.9 million at December 31, 1998 and used to acquire Blue Ridge Bank, was repaid prior to its final maturity on April 30, 1999.

Long-term debt, included in other indebtedness, consists primarily of structured term advances from the FHLB. Long-term advances from the FHLB and principal payments on correspondent bank debt as of December 31, 1999 and 1998 mature as follows:

Table 43

	1999		1998	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE
	(Amounts in Thousands)			
1999	$ --	--	$ 1,200	6.61%
2000	--	--	1,200	6.61%
2001	--	--	1,200	6.61%
2002	--	--	1,200	6.61%
2003	8,000	5.95%	9,200	6.04%
2004	--	--	1,200	6.61%
2005	--	--	700	6.61%
2008	2,000	6.27%	2,000	6.27%
	$10,000	6.01%	$17,900	6.28%

Advances from the FHLB are secured by stock in the FHLB of Atlanta, qualifying first mortgage loans, mortgage-backed securities and certain other investment securities. The FHLB advances are subject to restrictions or penalties in the event of prepayment. Other various debt obligations of the Company totaled $218,000 at December 31, 1999 and $276,000 at December 31, 1998.

NOTE 9. DEPOSITS

At December 31, 1999, the scheduled maturities of certificates of deposit are as follows:

Table 44

	(Amounts in Thousands)
2000	$340,936
2001	65,587
2002	20,853
2003	12,678
2004 and thereafter	6,736
	$446,790

Time deposits include Certificates of Deposit issued in denominations of $100,000 or more which amounted to $110.8 million and $113.4 million at December 31, 1999 and 1998, respectively. Interest expense on these certificates was $5.4 million, $6.5 million, and $5.5 million for 1999, 1998, and 1997, respectively.

NOTE 10. PER SHARE AMOUNTS

Basic earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. The Company's common stock was split five shares for four on March 31, 1997, March 31, 1998 and again on March 31, 1999. All share and per share data have been retroactively adjusted to reflect these stock splits.

NOTE 11. EMPLOYEE BENEFITS

EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains an Employee Stock Ownership and Savings Plan ("KSOP"). Coverage under the plan is provided to all employees meeting minimum eligibility requirements. Annual contributions to the stock portion of the plan are made at the discretion of the Board of Directors, and are allocated to plan participants on the basis of relative compensation. Substantially all plan assets are invested in common stock of the Company. Total expense recognized by the Company related to the Employee Stock Ownership Plan was $918,000, $947,000 and $767,000 in 1999, 1998 and 1997, respectively.

EMPLOYEE SAVINGS PLAN

The Company provides a 401(k) Savings feature within the KSOP that is available to substantially all employees meeting minimum eligibility requirements. The cost of Company contributions under the Savings Plan component of the KSOP was $149,000, $99,000, and $116,000 in 1999, 1998 and 1997, 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 1999, 1998 and 1997.

EMPLOYEE WELFARE PLAN

The Company provides various medical, dental, vision, life, accidental death and dismemberment and long-term disability insurance benefits to all full-time employees who elect coverage under this program (basic life, accidental death and dismemberment, and long-term disability coverage is automatic).

During 1998, the Company formed 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 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 $1,533,000 for individual and aggregate claims, respectively.

The Company adopted SFAS No. 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 is being 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

The banking subsidiary of the Company has deferred compensation agreements with certain current and former officers providing for benefit payments over various periods commencing at retirement or death. The balance sheet liability at December 31, 1999 was approximately $794,000. The expenses associated with this plan for 1999, 1998 and 1997 were $76,000, $(11,000) and $58,000, 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 1998 cost reflected a reduction in total benefit cost resulting in a net credit of $11,000.

EXECUTIVE RETENTION PLAN

In 1999, the Company established an Executive Retention Plan for key members of senior management. This Plan provides for a benefit at normal retirement (age 65) targeted at 15% of final compensation projected at an assumed 3% salary progression rate. Benefits under the Plan become payable at age 62. Actual benefits payable under the Retention Plan are dependant on an indexed retirement benefit formula which accrues benefits equal to the aggregate after-tax income of associated life insurance contracts less the Company's tax-effected cost of funds for that plan year. Benefits under the Plan are dependent on the performance of the insurance contracts and are not guaranteed by the Company.

As of December 31, 1999, the Company had not acquired the associated life insurance contracts. Accordingly, no benefits under the Plan have accrued. The Company funded the contracts during the first quarter of 2000.

In connection with the Executive Retention Plan, the Company has also entered into Life Insurance Endorsement Method Split Dollar Agreements (the "Agreements") with the executives covered under the Retention Plan. Under the Agreements, the Company shares 80% of death benefits (after recovery of cash surrender value) with the designated beneficiaries of the executives under life insurance contracts referenced in the Retention Plan. The Company as owner of the policies retains a 20% interest in life proceeds and a 100% interest in the cash surrender value of the policies.

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

Because the Retention Plan was designed to retain the future services of key executives, no benefits are payable under the Plan in the event of voluntary termination prior to retirement age of 62.

STOCK OPTIONS

In 1999, the Company instituted a Stock Option Plan to encourage and facilitate investment in the common stock of the Company by key executives and to assist in the long-term retention of service by those executives. The Plan covers key executives as determined by the Company's Board of Directors from time to time. Options under the Plan were granted in the form of non-statutory stock options with the aggregate number of shares of common stock available for grant under the Plan set at 275,000 shares. Total options granted under the Plan during 1999 represent the rights to acquire 272,578 shares with deemed grant dates of January 1 for each year 1999 through 2003 resulting in the deemed grant of 54,516 shares in each year of the five-year deemed grant period. All stock options granted pursuant to the Plan vest ratably on the first through the seventh anniversary dates of the deemed grant date. The option price of each

stock option is equal to the fair market value of the Company's common stock on the date of each deemed grant during the five-year grant period. Vested stock options granted pursuant to the Plan are exercisable for a period of five years after the date of the grantee's retirement (provided retirement occurs at or after age 62), and at disability, or death. If employment is terminated other than by retirement, disability, or death, vested options must be exercised

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

The Company accounts for options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma disclosure information regarding net income and earnings per share is required by SFAS No. 123, and is determined as if the Company had accounted for its employee stock options under one of the fair value methods called for in that Statement. The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model using the following assumptions: i) risk-free interest rate of 6.25%; ii) a dividend yield of 4.5%; iii) volatility factors for the expected market price of the Company's common stock of 32.8%; and iv) a weighted-average expected life of the options of 14.83 years.

Pro forma net income and earnings per share for 1999 would have been as follows:

Table 45

	1999 (Amounts in Thousands, Except Per Share Data)
Net income	$16,818
Basic earnings per share	$ 1.92
Fully diluted earnings per share	$ 1.91

A summary of the Company's stock option activity, and related information for the year ended December 31, 1999 is as follows:

Table 46

	1999	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding, beginning of year	--	$ --
Granted	54,516	24.20
Exercised	--	--
Forfeited	--	--
Outstanding, end of year	54,516	$24.20
Weighted-average fair value of options granted during the year	$ 4.47	

The exercise price for options outstanding as of December 31, 1999 was $24.20; however, no options are currently exercisable. The weighted-average remaining contractual life of all options is 14.83 years.

DEFINED BENEFIT PENSION PLAN

In October 1996, the Company's 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. There was no pension cost for the 1999 or 1998 years. Net periodic pension expense in 1997 was as follows:

Table 47

	1997 (Amounts in Thousands)
Service cost -- benefits earned during the year	$ --
Interest expense on projected benefit obligation	496
Expected return on plan assets	(879)
Net amortization and deferral	(56)
Net periodic pension (income) expense	$(439)

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NOTE 12. COMPENSATING BALANCES

Pursuant to agreements with the Federal Reserve Bank, the Company has agreed to maintain cash balances of approximately $1.0 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 subsidiary 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; accordingly, the Company has entered a vigorous defense of this suit for the continuation of the foundation's purpose. On October 15, 1998, the plaintiffs in the matter filed a cross motion for partial summary judgment. In a hearing on this motion, the Court requested that the Company, as defendant, file a motion for summary judgement and further ordered that discovery in this case be halted pending receipt of the motion for summary judgement. The motion for partial summary judgement was filed with the Court on January 14, 1999, and in a subsequent ruling, the Court granted the Company's motion finding no wrongdoing by the Company in its discretionary use of principal funds in this matter. This ruling in the Company's favor resolved plaintiffs' major cause of action against the Company.

As of the date of this report, discovery in this matter continues with a number of depositions of material witnesses completed and with other depositions scheduled for the near future. While the ultimate outcome of the matter cannot be predicted, both management and the Company's legal counsel are of the opinion that the remainder of the suit is without merit and will be successfully defended with no material adverse impact on the Company's financial condition.

Subsequent to December 31, 1999, the Company was named as defendant in a civil action brought by a not-for-profit foundation (plaintiff) as beneficiary under a Trust Under Will administered by the Company's Trust and Financial Services Division. The complaint formalized previous asserted but unfiled claims that the Bank as Trustee failed to appropriately acknowledge and follow the investment philosophy set forth by the plaintiff which allegedly resulted in a $425,000 loss of value of a bequest. The complaint further alleges that the

Trustee failed to act prudently with respect to the investment of the Trust funds and alleges that account management fees charged to the Trust account were excessive and did not constitute legitimate services tangibly benefiting the Trust account. The Company vigorously denies these allegations and is preparing an appropriate response to this complaint. The suit seeks recovery of the alleged losses, removal of the Trustee and unspecified punitive damages. At this time, it is not possible to predict the outcome of this action; however, the Company and its legal counsel believe that the Company possesses meritorious defenses and intend to vigorously defend this suit.

Other legal actions have arisen primarily from commercial lending transactions and collection activities. 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 the Company is dividends received from its subsidiary bank. Dividends paid by the subsidiary bank are subject to restrictions by banking regulations. The most restrictive provision of the regulations requires approval by the Office of the Comptroller of the Currency if dividends declared in any year exceed the year's net income, as defined, plus retained net profit of the two preceding years. At December 31, 1999, subsidiary earnings available for distribution as dividends to the Company without prior approval were $8.4 million.

NOTE 15. REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS

First Community Bancshares, Inc. and First Community Bank, N.A. (collectively referred to as "the Bank") are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, which applies only to the Bank, the bank must meet specific capital guidelines that involve quantitative measures of the entity's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The entity's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require First Community Bancshares, Inc. and the Bank to maintain minimum amounts and ratios (set forth in the table on page 43) 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). As of December 31, 1999, the Company and banking subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 1999 and 1998, the most recent notifications from the Federal Reserve Board categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total Risk-Based, Tier 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.

Capital ratios for December 31, 1998 have been restated in order to reflect the merger of the subsidiary entities of the Company with and into First Community Bank, N.A. The ratios presented for 1998 are reflective of the restated combined results as if the combination had occurred prior to 1999.

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Table 48

	DECEMBER 31, 1999					
	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............	$94,484	13.22%	$57,182	8.00%	$ N/A	N/A
First Community Bank, N.A.	79,226	11.12%	56,999	8.00%	71,248	10.00%
TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS:						
First Community Bancshares, Inc............	$85,513	11.96%	$28,591	4.00%	$ N/A	N/A
First Community Bank, N.A.	70,283	9.86%	28,499	4.00%	42,749	6.00%
TIER 1 CAPITAL TO AVERAGE ASSETS (LEVERAGE):						
First Community Bancshares, Inc............	$85,513	8.25%	$41,442	4.00%	$ N/A	N/A
First Community Bank, N.A.	70,283	6.80%	41,364	4.00%	51,704	5.00%

Table 49

	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, N.A.	66,966	10.45%	51,252	8.00%	64,065	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, N.A.	58,916	9.20%	25,626	4.00%	38,439	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, N.A.	58,916	5.51%	32,057	3.00%	53,428	5.00%

NOTE 16. INCOME TAXES

Table 50

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
	(Amounts in Thousands)		
INCOME TAXES ARE AS FOLLOWS:			
Income exclusive of securities gains............	$7,772	$6,154	$6,874
Net securities gains............................	--	10	2
	$7,772	$6,164	$6,876

Table 51

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
	(Amounts in Thousands)		
INCOME TAX PROVISIONS CONSISTS OF:			
Current tax expense	$8,324	$6,605	$6,520
Deferred tax (benefit) expense	(552)	(441)	356
	$7,772	$6,164	$6,876

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 assets as of December 31, 1999 and 1998 are as follows:

Table 52

	1999	1998
	(Amounts in Thousands)	
DEFERRED TAX ASSETS:		
Reserve for loan losses	$4,659	$4,463
Unrealized asset losses	243	248
Deferred compensation	1,050	956
Deferred insurance premiums	326	344
Unrealized loss on securities available for sale	3,628	--
Total deferred tax assets	$9,906	$6,011
DEFERRED TAX LIABILITIES:		
Purchase accounting adjustments	1,384	2,306
Depreciation	311	331
Gain on pension termination	282	497
Unrealized gain on securities available for sale	--	825
Other	553	592
Total deferred tax liabilities	2,530	4,551
Net deferred tax assets	$7,376	$1,460

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

Table 53

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
Tax at statutory rate	35.0%	35.0%	35.0%
(Reductions) increases resulting from:			
Tax-exempt interest on investment securities and loans	(7.9%)	(9.6%)	(6.7%)
State income taxes, net of federal benefit	.9%	1.3%	1.1%
Amortization of purchase accounting adjustments	1.8%	2.3%	1.6%
Other, net	1.8%	3.0%	.3%
Effective tax rate	31.6%	32.0%	31.3%

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NOTE 17. OTHER COMPREHENSIVE INCOME

The Company currently has one component of other comprehensive income, which includes unrealized gains and losses on securities available for sale and is detailed as follows:

Table 54

	1999	1998	1997
	(Amounts in Thousands)		
OTHER COMPREHENSIVE INCOME:			
Holding (losses) gains arising during the period....	$(11,184)	$ (17)	$1,381
Tax benefit (expense)..............................	4,473	6	(559)
Holding (losses) gains arising during the period, net of tax......................................	(6,711)	(11)	822
Reclassification adjustment for gains realized in net income, net of tax...........................	--	(4)	(6)
Tax expense of reclassifications....................	--	2	2
Other comprehensive (loss) income...................	(6,711)	(13)	818
Beginning accumulated other comprehensive income....	1,238	1,251	433
Ending accumulated other comprehensive (loss) income...	$ (5,473)	$1,238	$1,251

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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 55

	YEARS ENDED DECEMBER 31		
	1999	1998	1997
	(Amounts in Thousands)		
Credit card fees paid...........................	$ *	$1,315	$1,671
Supplies cost...................................	*	959	*

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

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" 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. Statement No. 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 actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

Table 56

	1999		1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(Amounts in Thousands)			
ASSETS:				
Cash and due from banks	$ 37,791	$ 37,791	$ 91,484	$ 91,484
Securities available for sale	212,105	212,105	193,194	193,194
Investment securities	78,768	78,917	84,016	88,256
Federal funds sold	6	6	25,630	25,630
Loans (net of reserve for loan losses)	692,196	701,020	600,089	601,205
Interest receivable	8,090	8,090	7,030	7,030
LIABILITIES:				
Demand deposits	115,288	115,288	123,992	123,992
Interest-bearing demand deposits	133,073	133,073	137,169	137,169
Savings deposits	138,107	138,107	148,461	148,461
Time deposits	446,790	443,611	466,374	467,054
Federal funds purchased	86,700	86,700	0	0
Securities sold under agreements to repurchase	41,062	41,062	47,680	47,680
Interest, taxes and other obligations	13,436	13,436	10,417	10,417
Other indebtedness	10,218	9,276	18,176	18,179

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 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 Statement No. 107. No value has been assigned to the franchise value of these deposits. For other types of deposits with fixed maturities, fair value has been estimated by discounting future cash flows based on interest rates currently being offered on deposits with similar characteristics and maturities.

OTHER INDEBTEDNESS

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

COMMITMENTS TO EXTEND CREDIT, 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.

LOGO

First Community Bancshares Logo

NOTE 20. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information related to First Community Bancshares, Inc. as of December 31, 1999 and 1998, and for the years ended December 31, 1999, 1998 and 1997 are as follows:

CONDENSED BALANCE SHEETS

(Amounts in Thousands)

Table 57

	DECEMBER 31	
	1999	1998
ASSETS		
Cash	$ 13,421	$ 814
Investment in subsidiary	87,962	108,889
Other assets	2,267	1,506
TOTAL ASSETS	$103,650	$111,209
LIABILITIES		
Other liabilities	$ 162	$ 9,490
STOCKHOLDERS' EQUITY		
Common stock	8,992	8,992
Additional paid-in capital	34,264	34,306
Retained earnings	63,899	61,488
Treasury stock	(2,945)	(1,403)
Unallocated ESOP shares	(722)	(1,664)
TOTAL STOCKHOLDERS' EQUITY	103,488	101,719
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$103,650	$111,209

CONDENSED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

Table 58

	DECEMBER 31		
	1999	1998	1997
Cash dividends received from subsidiary banks	$ 6,500	$ 7,500	$25,050
Revenue	275	112	148

Operating expense	(468)	(1,143)	(779)
	6,307	6,469	24,419
Income tax benefit	62	331	210
Equity in undistributed earnings of subsidiary (Dividends in excess of earnings of subsidiary)	10,483	6,301	(9,535)
Net Income	$16,852	$13,101	$15,094
Basic Earnings Per Share	$ 1.92	$ 1.49	$ 1.71
Diluted Earnings Per Share	$ 1.91	$ 1.49	$ 1.71

CONDENSED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

Table 59

	YEARS ENDING DECEMBER 31		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 16,852	$ 13,101	$ 15,094
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary (Dividends in excess of earnings of subsidiary)	(10,483)	(6,301)	9,535
Increase (decrease) in other assets	118	271	(136)
Increase (decrease) in other liabilities	51	(194)	98
Net cash provided by operating activities	6,538	6,877	24,591
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of securities available for sale	--	--	12
Payments for investments in and (advances to) subsidiary	24,719	--	(27,695)
Net cash provided by (used in) investing activities	24,719	--	(27,683)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	--	3,000	11,730
Repayment of long-term debt	(9,378)	(2,851)	(2,400)
Acquisition of treasury stock	(1,542)	(132)	--
Dividends paid	(7,730)	(7,415)	(7,345)
Other, net	--	--	(6)
Net cash (used in) provided by financing activities	(18,650)	(7,398)	1,979
Net increase (decrease) in cash and cash equivalents	12,607	(521)	(1,113)
Cash and cash equivalents at beginning of year	814	1,335	2,448
Cash and cash equivalents at end of year	$ 13,421	$ 814	$ 1,335

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NOTE 21. SUPPLEMENTAL FINANCIAL DATA

FIRST COMMUNITY BANCSHARES, INC.

QUARTERLY EARNINGS SUMMARY (UNAUDITED)

Quarterly earnings for the years ended December 31, 1999 and 1998 are as follows:

Table 60

	1999			
	MARCH 31	JUNE 30	SEPT 30	DEC 31
	(Amounts in Thousands, Except Per Share Data)			
Interest Income	$18,736	$18,896	$19,088	$19,772
Interest Expense	8,404	7,926	7,771	8,149
Net interest income	10332	10,970	11,317	11,623
Provision for loan losses	444	391	505	1,553
Net interest income after provision for possible loan losses	9,888	10,579	10,812	10,070
Other income	2,138	2,215	1,928	4,451
Other expenses	6,450	6,889	6,745	7,373
Income before income taxes	5,576	5,905	5,995	7,148
Income taxes	1,742	1,787	1,941	2,302
Net income	$ 3,834	$ 4,118	$ 4,054	$ 4,846
Per share:				
Basic earnings	$ 0.44	$ 0.47	$ 0.46	$ 0.55
Dividends	$ 0.20	$ 0.21	$ 0.22	$ 0.25
Weighted average basic shares outstanding	8,786	8,777	8,766	8,737

Table 61

	1998			
	MARCH 31	JUNE 30	SEPT 30	DEC 31
Interest Income	$20,655	$20,620	$20,330	$19,608
Interest Expense	9,551	9,678	9,633	9,266
Net interest income	11,104	10,942	10,697	10,342
Provision for loan losses	1,287	3,789	749	425
Net interest income after provision for loan losses	9,817	7,153	9,948	9,917
Other income	3,259	2,452	3,100	2,371
Other expenses	7,338	7,388	7,258	6,768
Income before income taxes	5,738	2,217	5,790	5,520
Income taxes	1,784	681	1,795	1,904
Net income	$ 3,954	$ 1,536	$ 3,995	$ 3,616
Per share:				
Basic and diluted earnings	$ .46	$ .18	$ .46	$ .39
Dividends	$ .20	$ .20	$ .20	$ .24
Weighted average basic shares outstanding	8,829	8,811	8,790	8,774

NOTE 22. OTHER ITEMS

In July 1999, the Company executed a commitment to purchase an equity interest in the Virginia Bankers Insurance Center, LLC ("VBIC"). The investment and participation in VBIC will allow the Company to offer a full line of property, casualty, life and health insurance products through its branch network. The initial investment in VBIC resulted in a 3.17% ownership interest in the newly established bank consortium. This investment was recorded and is being accounted for using the cost method of accounting. The VBIC is in the development stage and has no operations as of December 31, 1999.

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 subsidiary as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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 subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche

Pittsburgh, Pennsylvania
January 28, 2000

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First Community Bancshares Logo

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

BOARD OF DIRECTORS, FIRST COMMUNITY BANCSHARES, INC.

SAM CLARK
Agent, State Farm Insurance

ALLEN T. HAMNER
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, N. A.

B. W. HARVEY
President, Highlands Real Estate Management, Inc.; Member Executive Committee and Audit 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.; Senior Vice President -- Finance & Chief Administrative Officer, First Community Bank, N. A.

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.
Past 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, Morhous & Cameron, PLLC; Member Executive Committee

W. W. TINDER, JR.
Chairman of the Board and Chief Executive Officer, Tinder Enterprises, Inc.; President, Tinco 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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First Community Bancshares Logo

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

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

DR. JAMES P. BAILEY
Veterinarian, Veterinary Associates, Inc.
Chairman, First Community Bank, N.A.

W. C. BLANKENSHIP, JR.
Agent, State Farm Insurance

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

JUANITA G. BRYAN
Homemaker

SAM CLARK
Agent, State Farm Insurance

C. WILLIAM DAVIS
Attorney at Law, Richardson & Davis

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

JAMES L. HARRISON, SR.
President and Chief Executive Officer,
First Community Bancshares, Inc.;
President, First Community Bank, N. A.

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

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Partner, Katz, Kantor & Perkins, Attorneys-at-Law

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Bancshares, Inc.; Senior Vice President -- Finance and Chief Administrative
Officer, First Community Bank, N. A.

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

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

CLYDE B. RATLIFF
President, Gasco Drilling, Inc.

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

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

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

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

DALE F. WOODY
President, Woody Lumber Company

FIRST COMMUNITY BANK, N. A.

(A NATIONAL ASSOCIATION -- MEMBER FDIC)

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

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

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

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
Wytheville, Virginia 24382
(540) 228-1901

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

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First Community Bancshares Logo

UNITED FIRST MORTGAGE, INC.

(A WHOLLY-OWNED SUBSIDIARY OF FIRST COMMUNITY BANK, N. A.)

1503 Santa Rosa Road, Suite 109
P. O. Box K-177
Richmond, VA
23288
(804) 282-5631

FINANCIAL INFORMATION

CORPORATE HEADQUARTERS

First Community Bank, N.A.
One Community Place
P.O. Box 989
Bluefield, Virginia
24605-0989

(540) 326-9000

STOCK REGISTRAR AND TRANSFER AGENT

First Community Bank, N.A.
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 989
Bluefield, Virginia
24605-0989
(540) 326-9000

INTERNET ACCESS

Website: www.fcbinc.com
E-Mail: fcbcorp@aol.com

Section 3: EX-23 (INDEPENDENT AUDITORS CONSENT)

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-63865 and 333-31338 of First Community Bancshares, Inc. on Form S-8 of our report dated January 28, 2000, incorporated by reference in this Annual Report on Form 10-K of First Community Bancshares, Inc. for the year ended December 31, 1999.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 30, 2000

Section 4: EX-27 (FINANCIAL DATA SCHEDULE)

Table 1

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