FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-K
March 11, 2011

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Nevada	55-0694814
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
P.O. Box 989	
Bluefield, Virginia	24605-0989
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of exchange on which registered
Common Stock, $1.00 par value	NASDAQ Global Select

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

¨ Yes þ No

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.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes ¨ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨		Accelerated filer	þ
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company ¨	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes þ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Approximately $198.96 million based on the closing sales price at June 30, 2010.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class – Common Stock, $1.00 Par Value; 17,868,673 shares outstanding as of March 1, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 26, 2011, are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. Business.

Corporate Overview

First Community Bancshares, Inc. (the "Company") is a financial holding company incorporated in the State of Nevada and serves as the holding company for First Community Bank, N. A. (the "Bank"). The Company also owns GreenPoint Insurance Group, Inc. ("GreenPoint"), a full-service insurance agency. The Bank owns Investment Planning Consultants ("IPC"), an investment advisory firm.

The Company's banking operations are expected to remain the principal business and major source of revenue for the Company. The Company also considers and evaluates options for growth and expansion of the existing subsidiary banking operations. Although the Company is a corporate entity, legally separate and distinct from its affiliates, bank holding companies, such as the Company, are required to act as a source of financial strength for their subsidiary banks. The principal source of the Company's income is dividends from the Bank. Dividend payments by the Bank are determined in relation to earnings, asset growth, and capital position and are subject to certain restrictions by regulatory agencies as described more fully under "Regulation and Supervision – The Bank" of this item.

Business Overview

Through its subsidiaries, the Company offers commercial and consumer banking services and products, as well as wealth management and insurance services. Those products and services include the following:

- demand deposit accounts, savings and money market accounts, certificates of deposit, and individual retirement arrangements
- commercial, consumer, real estate mortgage loans, and lines of credit
- various debit card and automated teller machine card services
- corporate and personal trust services
- investment management services
- life, health, and property and casualty insurance products

The Company provides financial services and conducts banking operations within the states of Virginia, West Virginia, North and South Carolina, and Tennessee. The Company serves a diverse customer base consisting of individual consumers and a wide variety of industries, including, among others, manufacturing, mining, services, construction, retail, healthcare, military and transportation. The Company is not dependent upon any single industry or customer. The Company had total consolidated assets of $2.24 billion at December 31, 2010, and conducts its banking operations through fifty-seven locations.

Operating Segments

The Company's operations are managed along two reportable business segments consisting of community banking and insurance services. See Note 19 – Segment Information in the Notes to the Consolidated Financial Statements included in Item 8 hereof.

Competition

There is significant competition among banks in the Company's market areas. In addition, the Company also competes with other providers of financial services, such as thrifts, savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, insurance agencies, commercial finance and leasing companies, full service brokerage firms, and discount brokerage firms. Some of the Company's competitors have greater resources and, as such, may have higher lending limits and may offer other services that are not provided by the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Overview – Competition" in Item 7 hereof.

Employees

The Company and its subsidiaries employed 683 full-time equivalent employees at December 31, 2010. Management considers employee relations to be excellent.

Regulation and Supervision

General

The supervision and regulation of the Company and its subsidiaries by the banking agencies is intended primarily for the protection of depositors, the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"), and the banking system as a whole, and not for the protection of stockholders or creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the power to impose substantial fines and other penalties for violations of laws and regulations.

The following description summarizes some of the laws to which the Company and the Bank are subject. References in the following description to applicable statutes and regulations are brief summaries of these statutes and regulations, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations. A change in statutes, regulations or regulatory policies applicable to the Company and its subsidiaries could have a material effect on the business of the Company.

Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act will likely result in dramatic changes across the financial regulatory system, some of which become effective immediately and some of which will not become effective until various future dates. Implementation of the Dodd-Frank Act will require many new rules to be made by various federal regulatory agencies over the next several years. Uncertainty remains until final rulemaking is complete as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole or on the Bank's business, results of operations, and financial condition. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase the costs associated with deposits and place limitations on certain revenues those deposits may generate. The Dodd-Frank Act includes provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Bureau of Consumer Financial Protection ("CFPB"), responsible for implementing, examining, and enforcing compliance with federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB.
- Create the Financial Stability Oversight Council that will recommend to the Federal Reserve Board increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.
- Provide mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the DIF, and increase the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of $10 billion.
- Make permanent the $250 thousand limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013, for noninterest-bearing demand transaction accounts at all insured depository institutions.
- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks, such as the Bank, from availing themselves of such preemption.
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Require the Office of the Comptroller of the Currency (the "OCC") to seek to make its capital requirements for national banks, such as the Bank, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Require financial holding companies, such as the Company, to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.
- Mandate certain corporate governance and executive compensation matters be implemented, including (i) an advisory vote on executive compensation by a public company's stockholders; (ii) enhancement of independence requirements for compensation committee members; (iii) adoption of incentive-based compensation clawback policies for executive officers; and (iv) adoption of proxy access rules allowing stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials.

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions accounts.
- Amend the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed below.

The Company

The Company is a financial holding company pursuant to the Gramm-Leach-Bliley Act ("GLB Act") and a bank holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). Accordingly, the Company is subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The BHCA, the GLB Act, and other federal laws subject financial and bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. The BHCA generally provides for "umbrella" regulation of financial holding companies, such as the Company, by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

Regulatory Restrictions on Dividends; Source of Strength. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only from income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. As discussed below, a bank holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

Scope of Permissible Activities. Under the BHCA, bank holding companies generally may not acquire a direct or indirect interest in or control of more than 5% of the voting shares of any company that is not a bank or bank holding company or engage in activities other than those of banking, managing or controlling banks or furnishing services to or performing services for its subsidiaries, except that it may engage in, directly or indirectly, certain activities that the Federal Reserve Board determined to be closely related to banking or managing and controlling banks as to be a proper incident thereto.

Notwithstanding the foregoing, the GLB Act eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers and permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The GLB Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities and activities that the Federal Reserve Board has determined to be closely related to banking. No regulatory approval is generally required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

Under the GLB Act, a bank holding company may become a financial holding company by filing a declaration with the Federal Reserve Board if each of its subsidiary banks is well-capitalized under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (“CRA”). The Company elected financial holding company status in December 2006. Beginning in July 2011, the Company’s financial holding company status will also depend upon it maintaining its status as “well capitalized” and “well managed’ under applicable Federal Reserve Board regulations. If a financial holding company ceases to meet these requirements, the Federal Reserve Board may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve Board may require divestiture of the holding company’s depository institutions if the deficiencies persist.

Anti-Tying Restrictions. Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.
Stock Repurchases. A bank holding company is required to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation.

Capital Adequacy Requirements. The Federal Reserve Board has promulgated capital adequacy guidelines for use in its examination and supervision of bank holding companies. If a bank holding company's capital falls below minimum required levels, then the bank holding company must implement a plan to increase its capital and its ability to pay dividends, or making acquisitions of new banks or engaging in certain other activities such as issuing brokered deposits may be restricted or prohibited.

The Federal Reserve Board currently uses two types of capital adequacy guidelines for holding companies, a two-tiered risk-based capital guideline and a leverage capital ratio guideline. The two-tiered risk-based capital guideline assigns risk weightings to all assets and certain off-balance sheet items of the holding company's operations, and then establishes a minimum ratio of the holding company's Tier 1 capital to the aggregate dollar amount of risk-weighted assets (which amount is usually less than the aggregate dollar amount of such assets without risk weighting) and a minimum ratio of the holding company's total capital (Tier 1 capital plus Tier 2 capital, as adjusted) to the aggregate dollar amount of such risk-weighted assets. The leverage ratio guideline establishes a minimum ratio of the holding company's Tier 1 capital to its total tangible assets (total assets less goodwill and certain identifiable intangibles), without risk-weighting.

Under both guidelines, Tier 1 capital is defined to include: common shareholders' equity (including retained earnings), qualifying non-cumulative perpetual preferred stock and related surplus, qualifying cumulative perpetual preferred stock and related surplus, trust preferred securities, and minority interests in the equity accounts of consolidated subsidiaries (limited to a maximum of 25% of Tier 1 capital). Goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of the total risk-based capital guidelines, Tier 2 capital (sometimes referred to as "supplementary capital") is defined to include: (subject to limitations), perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments (subject to limitations). The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of the total capital guideline, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions. The Federal Reserve Board's current capital adequacy guidelines require that a bank holding company maintain a Tier 1 risk-based capital ratio of at least 4.00% and a total risk-based capital ratio of at least 8.00%. At December 31, 2010, the Company's ratio of Tier 1 capital to total risk-weighted assets was 14.07% and its ratio of total capital to risk-weighted assets was 15.33%.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.00%, but other bank holding companies are required to maintain a leverage ratio of 4.00% or more, depending on their overall condition. At December 31, 2010, the Company's leverage ratio was 9.44%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations 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.

The current risk-based capital guidelines that apply to the Company and the Bank are based on the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the Federal Reserve Board and the OCC. In 2004, the Basel Committee published a new capital accord, which is referred to as “Basel II,” to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk: an internal ratings-based approach tailored to individual institutions’ circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines, which became effective in 2008 for large or “core” international banks (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Other U.S. banking organizations can elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they are not required to apply them. Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity, which is referred to as “Basel III.” Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States. Basel III will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios: (i) 3.5% Common Equity Tier 1 (generally consisting of common shares and retained earnings) to risk-weighted assets; (ii) 4.5% Tier 1 capital to risk-weighted assets; and (iii) 8.0% Total capital to risk-weighted assets.

When fully phased-in on January 1, 2019, and if implemented by the U.S. banking agencies, Basel III will require banks to maintain:

- a minimum ratio of Common Equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer,”
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer,
- a minimum ratio of Total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, and
- a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

Basel III also includes the following significant provisions:

- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement that the instrument must be written off or converted to common equity if a triggering event occurs, either pursuant to applicable law or at the direction of the banking regulator. A triggering event is an event that would cause the banking organization to become nonviable without the write-off or conversion, or without an injection of capital from the public sector.

Since the Basel III framework is not self-executing, the rules and standards promulgated under Basel III require that the U.S. federal banking regulators adopt them prior to becoming effective in the U.S. Although U.S. federal banking regulators have expressed support for Basel III, the timing and scope of its implementation, as well as any potential modifications or adjustments that may result during the implementation process, are not yet known.

In addition to Basel III, the Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions’ capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. The Dodd-Frank Act requires the Federal Reserve Board, the OCC and the FDIC to adopt regulations imposing a continuing “floor” of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement.

Acquisitions by Bank Holding Companies. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

Incentive Compensation. In June 2010, the Federal Reserve Board, the OCC and the FDIC issued their final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The final guidance,, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. The Federal Reserve Board indicated that all banking organizations are to evaluate their incentive compensation arrangements and related risk management, controls, and corporate governance processes and immediately address deficiencies in these arrangements or processes that are inconsistent with safety and soundness.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the Federal Reserve Board, the OCC and the FDIC approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses.

The scope and content of the U.S. banking regulators’ policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company’s ability to hire, retain and motivate its key employees.

The Bank

The Bank is a national association and is subject to supervision and regulation by the OCC. Since the deposits of the Bank are insured by the FDIC, the Bank is also subject to supervision and regulation by the FDIC. Because the Federal Reserve Board regulates the Company, and because the Bank is a member of the Federal Reserve System, the Federal Reserve Board also has regulatory authority which directly affects the Bank.

Restrictions on Transactions with Affiliates and Insiders. Transactions between the Bank and its nonbanking subsidiaries and/or affiliates, including the Company, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company or its subsidiaries.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. The Federal Reserve Board has issued Regulation W which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretive guidance with respect to affiliate transactions.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

The restrictions on loans to directors, executive officers, principal shareholders and their related interests contained in the Federal Reserve Act and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to such persons. These loans cannot exceed the institution’s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets. Dividends paid by the Bank have provided the Company’s operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to the Company will continue to be the Company’s primary source of operating funds.

Capital adequacy requirements of the OCC limit the amount of dividends that may be paid by the Bank. The Bank cannot pay a dividend if, after paying the dividend, it would be classified as “undercapitalized.” See “Regulation and Supervision – The Bank – Capital Adequacy Requirements” for information on the capital requirements applicable to the Bank. In addition, without the OCC’s approval, dividends may not be paid by the Bank in an amount in any calendar year which exceeds its total net profits for that year, plus its retained profits for the preceding two years, less any required transfers to capital surplus. National banks also may not pay dividends in excess of total retained profits, including current year’s earnings after deducting bad debts in excess of reserves for loan losses. In some cases, the OCC may find a dividend payment that meets these statutory requirements to be an unsafe or unsound practice. As a result of securities impairments and a special dividend from the Bank in 2008, the Bank is limited as to the dividends it can pay. Accordingly, the Bank would need permission from the OCC prior to paying dividends through approximately December 31, 2011.

Because the Company is a legal entity separate and distinct from its subsidiaries, its right to participate in the distribution of assets of any subsidiary upon the subsidiary’s liquidation or reorganization will be subject to the prior claims of the subsidiary’s creditors. In the event of liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, including any depository institution holding company or any shareholder or creditor thereof.

Examinations. Under the FDICIA, all insured institutions must undergo regular on-site examination by their appropriate banking agency and such agency may assess the institution for its costs of conducting the examination. The OCC periodically examines and evaluates national banks, such as the Bank. These examinations review areas such as capital adequacy, reserves, loan portfolio quality and management, consumer and other compliance issues, investments, information systems, disaster recovery and contingency planning and management practices. Based upon such an evaluation, the OCC may revalue the assets of a bank and require that it establish specific reserves to compensate for the difference between the OCC determined value and the book value of such assets.

Capital Adequacy Requirements. The OCC has adopted regulations establishing minimum requirements for the capital adequacy of insured national banks. The OCC may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk.

The OCC’s risk-based capital guidelines generally require national banks to have a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.00% and a ratio of total capital to total risk-weighted assets of 8.00%. The capital categories have the same definitions for the Bank as for the Company. See “Regulation and Supervision – The Company – Capital Adequacy Requirements” for additional information on the capital requirements applicable to the Bank. In 2010, the OCC issued an Individual Minimum Capital Ratio directive (“IMCR”) to the Bank which requires it to maintain a total risk-based capital ratio of 11.50% and a Tier 1 risk-based capital ratio of 10.00%. At December 31, 2010, the Bank’s ratio of Tier 1 capital to total risk-weighted assets was 12.92% and its ratio of total capital to total risk-weighted assets was 14.18%.

The OCC’s leverage guidelines require national banks to maintain Tier 1 capital of no less than 4.00% of average total assets, except in the case of certain highly rated banks for which the requirement is 3.00% of average total assets. As part of the OCC’s IMCR, the Bank is required to maintain a Tier 1 leverage ratio of 7.50%. At December 31, 2010, the Bank’s leverage ratio was 8.66%.

Corrective Measures for Capital Deficiencies. The federal banking regulators are required to take “prompt corrective action” with respect to capital-deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A “well-capitalized” institution has a total risk-based capital ratio of 10.0% or higher; a Tier

1 risk-based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An “adequately capitalized” institution has a total risk-based capital ratio of 8.0% or higher; a Tier 1 risk-based capital ratio of 4.0% or higher; a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a well-capitalized bank. An “undercapitalized” institution has a total risk-based capital ratio that is less than 8.0%; a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%. A “significantly undercapitalized” institution has a total risk-based capital ratio of less than 6.0%; a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%. A “critically undercapitalized” institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than 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. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank’s overall financial condition or prospects for other purposes. The Bank was classified as “well-capitalized” for purposes of the FDIC’s prompt corrective action regulation as of December 31, 2010.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution’s capital decreases, the federal regulators’ enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FDIC has limited discretion in dealing with a critically undercapitalized institution and is generally required to appoint a receiver or conservator. Similarly, within 90 days of a national bank becoming critically undercapitalized, the OCC must appoint a receiver or conservator unless certain findings are made with respect to the institution’s continued viability.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Deposit Insurance Assessments. The Bank’s deposits are insured up to applicable limits by the DIF of the FDIC and are subject to deposit insurance assessments to maintain the DIF. Currently the FDIC utilizes a risk-based assessment system to evaluate the risk of each financial institution based on three primary sources of information: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the institution has one. The FDIC’s initial base assessment schedule can be adjusted up or down, and premiums for 2010 ranged from 12 basis points in the lowest risk category to 45 basis points for banks in the highest risk category.

The Dodd-Frank Act requires the FDIC to increase the DIF’s reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of greater than $10 billion. In October 2010, the FDIC addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. The FDIC also proposed to raise its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum.

In February 2011, the FDIC adopted new rules that amend its current deposit insurance assessment regulations. The new rules implement a provision in the Dodd-Frank Act that changes the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average tangible equity. The rules also change the assessment rate schedules for insured depository institutions so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the current rate schedule and the schedules previously proposed by the FDIC in October 2010. In addition, the new rules revise the risk-based assessment system for large insured depository institutions (generally, institutions with at least $10 billion in total assets) and “highly complex” institutions by requiring that the FDIC use a scorecard method to calculate assessment rates for all such institutions. The Bank will not be deemed a “highly complex” institution for these purposes.

Under the new rules, the FDIC set initial base assessment rates from 5 basis points in the lowest risk category to 35 basis points for banks in the higher risk category, which are effective April 1, 2011. The Company cannot provide any assurance as to the amount of any proposed increase in its deposit insurance premium rate, as such changes are dependent upon a variety of factors, some of which are beyond the Company’s control.

Under the Federal Deposit Insurance Act, as amended (the “FDIA”),, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Standards. The FDIA, requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of FDIA. See “Corrective Measures for Capital Deficiencies” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Enforcement Powers. The FDIC and the other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or the Bank, as well as officers, directors and other institution-affiliated parties of these organizations, to administrative sanctions and potentially substantial civil money penalties. The appropriate federal banking agency may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized; fails to become adequately capitalized when required to do so; fails to submit a timely and acceptable capital restoration plan; or materially fails to implement an accepted capital restoration plan.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, and various state counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution’s policies and procedures regarding the handling of customers’ nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

USA PATRIOT Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“Patriot Act”) was enacted in October 2001. The Patriot Act has broadened existing anti-money laundering legislation while imposing new compliance and due diligence obligations on banks and other financial institutions, with a particular focus on detecting and reporting money laundering transactions involving domestic or international customers. The U.S. Treasury Department has issued and will continue to issue regulations clarifying the Patriot Act’s requirements. The Patriot Act requires all “financial institutions,” as defined, to establish \certain anti-money laundering compliance and due diligence programs. Recently, the regulatory agencies have intensified their examination procedures in light of the Patriot Act’s anti-money laundering and Bank Secrecy Act requirements. The Company believes that its controls and procedures were in compliance with the Patriot Act as of December 31, 2010.

Participation in the Troubled Asset Relief Program Capital Purchase Program

On November 21, 2008, the Company issued and sold to the U.S. Department of the Treasury (“Treasury”) (i) 41,500 shares of the Company’s Series A Preferred Stock and (ii) a warrant (the “Warrant”) to purchase 176,546 shares of the Company’s common stock, par value $1.00 per share (the “Common Stock”), for an aggregate purchase price of $41.50 million in cash. On June 5, 2009 the Company completed a public offering of its Common Stock that resulted in the reduction of the shares of Common Stock underlying the Warrant from 176,546 shares to 88,273 shares. On July 8, 2009, the Company repurchased from the Treasury all of the Series A Preferred Stock that it had issued to the Treasury in November 2008. The Company did not repurchase the Warrant.

The Warrant has a 10-year term and was immediately exercisable upon its issuance, with an initial per share exercise price of $35.26. Pursuant to the Purchase Agreement, Treasury has agreed not to exercise voting power with respect to any share of Common Stock issued upon exercise of the Warrant. In accordance with the terms of the Purchase Agreement, the Company registered the Warrant and the shares of Common Stock underlying the Warrant with the Securities and Exchange Commission (the “SEC”). The Warrant is not subject to any contractual restrictions on transfer. As required by the American Recovery and Reinvestment Act of 2009, the Secretary of the Treasury is required to liquidate the Warrant following the repurchase of the Series A Preferred Stock by the Company, which occurred in July 2009.

Available Information

Under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company is required to file annual, quarterly and current reports, proxy statements and other information with the SEC. Any document the Company files with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company makes available, free of charge, on its website at www.fcbinc.com its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, as soon as reasonably practicable after the Company files such reports with, or furnishes them to, the SEC. Investors are encouraged to access these reports and the other information about the Company’s business on its website. Information found on the Company’s website is not part of this Annual Report on Form 10-K. The Company will also provide copies of its Annual Report on Form 10-K, free of charge, upon written request of its Investor Relations Department at the Company’s main address, P.O. Box 989, Bluefield, VA 24605.

Also posted on the Company’s website, and available in print upon request of any shareholder to the Company’s Investor Relations Department, are the charters of the standing committees of its Board of Directors, the Standards of Conduct governing the Company’s directors, officers, and employees, and the Company’s Insider Trading & Disclosure Policy.

Forward-Looking Statements

This Annual Report on Form 10-K may include “forward-looking statements,” which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the Company’s beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond the Company’s control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan” and similar ex intended to identify forward-looking statements. The following factors, among others, could cause the Company’s financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market and monetary fluctuations; the timely development of competitive new products and services of the Company and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors’ products and services for the Company’s products and services and vice versa; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions; the growth and profitability of the Company’s noninterest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not all-inclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, then the Company’s actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Annual Report on Form 10-K. Therefore, the Company cautions you not to place undue reliance on these forward-looking statements.

The Company does not intend to update these forward-looking statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

ITEM 1A. Risk Factors.

The current economic environment poses significant challenges for the Company and could adversely affect its financial condition and results of operations.

There has been significant disruption and volatility in the financial and capital markets since 2007. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets. Dramatic declines in the housing markets over the past several years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. As a consequence, the Company experienced losses in 2009 resulting primarily from substantial impairment charges on investment securities. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on the Company’s borrowers or its customers, which could adversely affect the Company’s financial condition and results of operations. Deterioration in local economic conditions, particularly within the Company’s geographic regions and markets, could drive losses beyond that which is provided for in its allowance for loan losses. The Company may also face the following risks in connection with these events:

- Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in deterioration in credit quality of the Company's loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on the Company's business.
- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- The processes the Company uses to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments that may no longer be capable of accurate estimation.
- The Company's ability to assess the creditworthiness of its customers may be impaired if the models and approaches it uses to select, manage, and underwrite its customers become less predictive of future charge-offs.
- The Company expects to face increased regulation of its industry, and compliance with such regulation may increase its costs, limit its ability to pursue business opportunities, and increase compliance challenges.

As the above conditions or similar ones continue to exist or worsen, the Company could experience continuing or increased adverse effects on its financial condition and results of operations.

The Company and its subsidiary business are subject to interest rate risk and variations in interest rates may negatively affect its financial performance.

The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, and (ii) the fair value of the Company's financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

The Bank's allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses. The Bank's allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect the Bank's operating results. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Bank to make significant estimates of current credit risks and future trends, all of which may undergo material changes. The Bank's allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio, and industry information. Also included in management's estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond the Bank's control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review the Bank's loans and allowance for loan losses. Although the Company believes that the Bank's allowance for loan losses is adequate to provide for probable losses, there are no assurances that future increases in the allowance for loan losses will not be needed or that regulators will not require the Bank to increase its allowance. Either of these occurrences could materially and adversely affect the Company's earnings and profitability.

The Company has experienced increases in the levels of non-performing assets and loan charge-offs in recent periods. The Company's total non-performing assets amounted to $29.65 million at December 31, 2010, $23.50 million at December 31, 2009, and $14.09 million at December 31, 2008. The Company had $12.55 million of net loan charge-offs for the year ended December 31, 2010, compared to $9.31 million and $5.45 million in net loan charge-offs for the years ended December 31, 2009 and 2008, respectively. The Company's provision for loan losses was $14.76 million for the year ended December 31, 2010, $15.80 million for the year ended December 31, 2009, and $9.23 million for the year ended December 31, 2008. At December 31, 2010, the ratios of the Company's allowance for loan losses to non-accrual loans and to total loans outstanding were 136.41% and 1.91%, respectively. Additional increases in the Company's non-performing assets or loan charge-offs may require it to increase its allowance for loan losses, which would have an adverse effect upon the Company's future results of operations.

The declining real estate market could impact the Company's business.

The Company's business activities are conducted in Virginia, West Virginia, North Carolina, South Carolina, Tennessee and the surrounding regions. Over the past several years, the real estate market in these regions experienced declines with falling home prices and increased foreclosures. As the Company's net charge-offs increased during this period and in recognition of the continued deterioration in the real estate market and the potential for further increases in non-performing assets, the Company increased its provision for loan losses over historical levels during 2008, 2009, and 2010. A continued downturn in this regional real estate market could hurt the Company's business because of the geographic concentration within this regional area and because the vast majority of the Company's loans are secured by real estate. If there is a further decline in real estate values, the collateral for the Company's loans will provide less security. As a result, the Company's ability to recover on defaulted loans by selling the underlying real estate will be diminished, and it will be more likely to suffer losses on defaulted loans.

The Company's level of credit risk is increasing due to its focus on commercial and construction lending, and the concentration on small businesses and middle market customers with significant vulnerability to economic conditions.

As of December 31, 2010, the Company's largest outstanding commercial business loan and largest outstanding commercial real estate loan amounted to $6.18 million and $9.85 million, respectively. At such date, the Company's commercial business loans amounted to $447.37 million, or 32.27% of the Company's total loan portfolio, and the Company's commercial real estate loans amounted to $145.90 million, or 10.52% of the Company's total loan portfolio. Commercial business and commercial real estate loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial business and commercial real estate loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company's commercial business loans are made to small business or middle market customers who may have a significant vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by the Company in recent years and the borrowers may not have experienced a complete business or economic cycle.

In addition to commercial real estate and commercial business loans, the Company holds a portfolio of construction loans. At December 31, 2010, the Company's construction loans amounted to $61.04 million, or 4.40% of the Company's total loan portfolio. Construction loans generally have a higher risk of loss than single-family residential mortgage loans due primarily to the critical nature of the initial estimates of a property's value upon completion of construction compared to the estimated costs, including interest, of construction as well as other assumptions. If the estimates upon which construction loans are made prove to be inaccurate, the Company may be confronted with projects that, upon completion, have values which are below the loan amounts. The nature of the allowance for loan losses requires that the Company must use assumptions regarding, among other factors, individual loans and the economy. While the Company is not aware of any specific, material impediments impacting any of its builder/developer borrowers at this time, there continues to be nationwide reports of significant problems which have adversely affected many property developers and builders as well as the institutions that have provided those loans. If significant numbers of the builder/developers to which the Company has extended construction loans experience the type of difficulties that are being reported, it could have adverse consequences upon its future results of operations.

The Bank may suffer losses in its loan portfolio despite its underwriting practices.

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

Changes in the fair value of the Company's securities may reduce its stockholders' equity and net income.

At December 31, 2010, $480.06 million of the Company's securities were classified as available-for-sale. At such date, the aggregate unrealized losses on the Company's available-for-sale securities were $28.45 million. The Company increases or decreases stockholders' equity by the amount of the change in the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of the Company's available-for-sale securities portfolio, net of the related tax benefit, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered at the maturity of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

The Company conducts periodic reviews and evaluations of its entire securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which the Company considered in its analysis of debt securities include, but are not limited to, intent to sell the security, evidence available to determine if it is more likely than not that the Company will have to sell the securities before recovery of the amortized cost, and probable credit losses. Probable credit losses are evaluated based upon, but are not limited to: the present value of future cash flows, the severity and duration of the decline in fair value of the security below its amortized cost, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, the payment structure of the security, failure of the security to make scheduled interest or principal payments, and changes to the rating of the security by rating agencies. The Company generally views changes in fair value for debt securities caused by changes in interest rates as temporary, which is consistent with the Company's experience. If the Company deems such decline to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income. For the year ended December 31, 2010, the Company reported other-than-temporary impairment ("OTTI") charges of $134 thousand on its debt securities portfolio.

Factors that the Company considers in its analysis of equity securities include, but are not limited to: intent to sell the security before recovery of the cost, the severity and duration of the decline in fair value of the security below its cost, the financial condition and near-term prospects of the issuer, and whether the decline appears to be related to issuer conditions or general market or industry conditions.

The Company continues to monitor the fair value of its entire securities portfolio as part of its ongoing OTTI evaluation process. No assurance can be given that the Company will not need to recognize OTTI charges related to securities in the future.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material effect on the Company's operations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key provisions of the Dodd-Frank Act that are anticipated to affect the Company's operations include:

- changes to regulatory capital requirements;
- creation of new government regulatory agencies, including the Consumer Financial Protection Bureau;
- limitation on federal preemption;
- changes in insured depository institution regulations and assessments; and
- mortgage loan origination and risk retention.

Many of the requirements of the Dodd-Frank Act will be implemented over time and most will be subject to the rulemaking process at various regulatory agencies. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on the Company's operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition.

The Company and its subsidiaries are subject to extensive regulation which could adversely affect them.

The Company and its subsidiaries' operations are subject to extensive regulation and supervision by federal and state governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of the Company's operations. Banking regulations governing the Company's operations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. These laws, rules and regulations, or any other laws, rules or regulations that may be adopted in the future, could make compliance more difficult or expensive, restrict the Company's ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by the Bank and otherwise adversely affect the Company's business, financial condition or prospects.

The financial services industry is likely to face increased regulation and supervision as a result of the recent financial crisis. Such additional regulation and supervision may increase the Company's costs and limit its ability to pursue business opportunities. The affects of such recently enacted, and proposed, legislation and regulatory programs on the Company cannot reliably be determined at this time.

The Bank's ability to pay dividends is subject to regulatory limitations which, to the extent the Company requires such dividends in the future, may affect the Company's ability to pay its obligations and pay dividends.

The Company is a separate legal entity from the Bank and its subsidiaries and does not have significant operations of its own. The Company currently depends on the Bank's cash and liquidity as well as dividends from the Bank to pay the Company's operating expenses and dividends to its stockholders. No assurance can be made that in the future the Bank will have the capacity to pay the necessary dividends and that the Company will not require dividends from the Bank to satisfy the Company's obligations. The availability of dividends from the Bank is limited by various statutes and regulations. In addition, the OCC issued a minimum capital ratio directive to the Bank that requires it to maintain heightened regulatory capital ratios which could impact the Bank's ability to pay a dividend to the Company. It is possible, depending upon the financial condition of the Bank and other factors, that the OCC, the Bank's primary regulator, could assert that payment of dividends or other payments by the Bank are an unsafe or unsound practice. In the event the Bank is unable to pay dividends sufficient to satisfy the Company's obligations or is otherwise unable to pay dividends to the Company, the Company may not be able to service its obligations as they become due, including payments required to be made to the FCBI Capital Trust, a business trust subsidiary of the Company, or pay dividends on the Company's Common Stock. Consequently, the inability to receive dividends from the Bank could adversely affect the Company's financial condition, results of operations, cash flows and prospects. As a result of securities impairments in 2009, the Bank does not have retained profits from which it can pay dividends. Accordingly, the Bank would need permission from the OCC prior to paying dividends to the Company through approximately December 31, 2011.

The Company faces strong competition from other financial institutions, financial service companies and other organizations offering services similar to those offered by the Company and its subsidiaries, which could hurt the Company's business.

The Company's business operations are centered primarily in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. Increased competition within this region may result in reduced loan originations and deposits. Ultimately, the Company may not be able to compete successfully against current and future competitors. Many competitors offer the types of loans and banking services that the Bank offers. These competitors include other savings associations, national banks, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, the Bank's competitors include other state and national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns.

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

Potential Acquisitions May Disrupt the Company's Business and Dilute Stockholder Value

The Company may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Difficulty, expense, and delays of integrating the operations and personnel of the target company.
- Potential disruption to the Company’s business.
- Potential diversion of the Company’s management’s time and attention.
- The possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.
- Unexpected costs and delays.
- Risks that the acquired target company does not perform consistent with the Company’s growth and profitability expectations.
- Risks associated with entering new markets or product areas where the Company has limited experience.
- Risks that growth will strain the Company’s infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures.
- Potential short-term decreases in profitability.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some initial dilution of the Company’s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company’s financial condition and results of operations.

The Company may engage in FDIC-assisted transactions, which could present additional risks to its business.

The Company may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, which present the risks of acquisitions discussed above, as well as some risks specific to these transactions. Because FDIC-assisted acquisitions provide for limited diligence and negotiation of terms, these transactions may require additional resources and time, including relating to servicing acquired problem loans and costs related to integration of personnel and operating systems, the establishment of processes to service acquired assets. Such transactions may also require the Company to raise additional capital, which may be dilutive to existing stockholders. If the Company is unable to manage these risks, FDIC-assisted acquisitions could have a material adverse effect on its business, financial condition and results of operations.

Attractive acquisition opportunities may not be available to us in the future.

The Company expects that other banking and financial companies, many of which have significantly greater resources, will compete with it to acquire financial services businesses. This competition could increase prices for potential acquisitions that the Company believes are attractive. Also, acquisitions are subject to various regulatory approvals. If the Company fails to receive the appropriate regulatory approvals, it will not be able to consummate an acquisition that it believes is in its best interests. Among other things, the Company’s regulators consider the Company’s capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to the Company’s earnings and stockholders’ equity per share of the Company’s Common Stock.

The Company’s goodwill may be determined to be impaired.

As of December 31, 2010, the carrying amount of the Company’s goodwill was $84.91 million. The Company tests goodwill for impairment on an annual basis, or more frequently if necessary. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measuring impairment, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the Company determines that the carrying amount of its goodwill exceeds its implied fair value, the Company would be required to write-down the value of the goodwill on its balance sheet. This, in turn, would result in a charge against earnings and, thus, a reduction in the Company’s stockholders’ equity and certain related capital measures. During 2010, the Company recognized a charge of $1.04 million to write-down the value of goodwill at its insurance agency subsidiary.

The Company may lose members of its management team and have difficulty attracting skilled personnel.

The Company’s success depends, in large part, on its ability to attract and retain key people. Competition for the best people can be intense and the Company may not be able to hire such people or to retain them. The unexpected loss of services of key personnel of the Company could have a material adverse impact on its business because of their skills, knowledge of the Company’s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, recent regulatory proposals and guidance relating to compensation may negatively impact the Company’s ability to retain and attract skilled personnel.

Increases in FDIC deposit insurance premiums could adversely affect the Company's earnings.

Market developments have significantly depleted the DIF of the FDIC and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC revised its assessment rates which raised deposit premiums for certain insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures, the FDIC may increase the deposit insurance assessment rates. Any future assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect the Company's earnings and could have a material adverse effect on the value of its common stock.

The Company may seek to raise additional capital in the future, and such capital may not be available on acceptable terms or at all.

The Company may seek to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments, business needs, and growth objectives, particularly if its asset quality or earnings were to deteriorate significantly. The Company's ability to raise additional capital, will depend on, among other things, conditions in the capital markets at that time, which are outside of its control, and its financial performance. Economic conditions and the loss of confidence in financial institutions may increase the Company's cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve Bank. Any occurrence that may limit the Company's access to the capital markets may adversely affect the Company's capital costs and its ability to raise capital and, in turn, its liquidity. Accordingly, the Company cannot provide any assurance that additional capital will be available on acceptable terms or at all. An inability to raise additional capital on acceptable terms could have a materially adverse effect on the Company's businesses, financial condition and results of operations.

Liquidity risk could impair the Company's ability to fund its operations and jeopardize its financial condition.

Liquidity is essential to the Company's business. An inability to raise funds through deposits, borrowings, equity and debt offerings and other sources could have a substantial negative effect on the Company's liquidity. The Company's access to funding sources in amounts adequate to finance its activities, or on terms attractive to the Company, could be impaired by factors that affect the Company specifically or the financial services industry in general. Factors that could detrimentally impact the Company's access to liquidity sources include a reduction in its credit ratings, if any, an increase in costs of capital in financial capital markets, a decrease in the level of its business activity due to a market downturn or adverse regulatory action against the Company, or a decrease in depositor or investor confidence in it. The Company's access to liquidity sources could also be impaired by factors that are not specific to it, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

The Company's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company's internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

The failure of other financial institutions could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. The Company has exposure to different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, the Company is required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, the Company may experience delays in recovering the assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty.
In addition, many of these transactions expose the Company to credit risk in the event of a default by the Company's counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by the Company cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any losses resulting from the Company's routine funding transactions may materially and adversely affect its financial condition and results of operations.

The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. Unresolved Staff Comments.

The Company has no unresolved staff comments as of the filing date of this 2010 Annual Report on Form 10-K.

ITEM 2. Properties.

The Company generally owns its offices, related facilities, and unimproved real property. The principal offices of the Company are located at One Community Place, Bluefield, Virginia, where the Company owns and occupies approximately 36,000 square feet of office space. As of December 31, 2010, the Company operated 57 banking offices located throughout the five states of Virginia, West Virginia, North and South Carolina, and Tennessee. The Company owns 43 of its banking offices while others are leased or are located on leased land. The Company also operates 10 insurance offices throughout North Carolina, West Virginia and Virginia, including its headquarters in High Point, North Carolina. The Company owns one of its insurance offices and leases the remaining locations. There are no mortgages or liens against any property of the Company. A complete listing of all branches and ATM sites can be found on the Internet at www.fcbresource.com. Information on such website is not part of this Annual Report on Form 10-K.

ITEM 3. Legal Proceedings.

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

ITEM 4. Reserved.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock Market Prices and Dividends

The number of common stockholders of record on February 22, 2011, was 2,794 and outstanding shares totaled 17,868,673. The number of common stockholders is measured by the number of recordholders. The Company's common stock trades on the NASDAQ Global Select market under the symbol "FCBC".

Cash dividends on common stock totaled $0.40 per share for 2010 and $0.30 per share in 2009. Total dividends paid on common stock for the years ended December 31, 2010, and December 31, 2009, totaled $7.12 million and $4.62 million, respectively. Total cash dividends paid on preferred stock for 2009 totaled $1.12 million. Details of the restrictions on cash dividends are set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in Item 6 hereof and Note 14 – Regulatory Capital Requirements and Restrictions of the Notes to Consolidated Financial Statements included in Item 8 hereof.

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

	2010		2009	
	High	Low	High	Low
Sales Price Per Share				
First quarter	$ 13.34	$ 10.96	$ 35.13	$ 7.90
Second quarter	17.37	12.53	17.55	10.27
Third quarter	16.06	12.02	14.29	12.00
Fourth quarter	15.86	12.55	13.06	10.50

	2010	2009
Cash Dividends Per Share		
First quarter	$ 0.10	$ -
Second quarter	0.10	0.20
Third quarter	0.10	0.10
Fourth quarter	0.10	-
Total	$ 0.40	$ 0.30

Stock Repurchase Plans

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act of the Company's common stock during the fourth quarter of 2010.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under the Plan (1)
October 1-31, 2010	-	$ -	-	851,779
November 1-30, 2010	-	-	-	874,593
December 1-31, 2010	-	-	-	883,513
Total	-	$ -	-	

(1) The Company's stock repurchase plan, as amended, authorized the purchase and retention of up to 1,100,000 shares. The plan has no expiration date and currently is in effect . No determination has been made to terminate the plan or to cease making purchases. The Company held 216,487 shares in treasury at December 31, 2010.

Total Return Analysis

The following chart was compiled by SNL Securities LC, and compares cumulative total shareholder return of the Company's common stock for the five-year period ended December 31, 2010, with the cumulative total return of the S&P 500 Index, the NASDAQ Composite index, and the Asset Size & Regional Peer Group. The Asset Size & Regional Peer Group consists of 52 bank holding companies that are traded on the NASDAQ, OTC Bulletin Board, and pink sheets with total assets between $1 billion and $5 billion and are located in the Southeast Region of the United States. The cumulative returns include reinvestment of dividends by the Company.

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
First Community Bancshares, Inc.	100.00	131.01	109.13	123.59	43.75	55.84
S&P 500	100.00	115.79	122.16	76.96	97.33	111.99
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
Asset & Regional Peer Group**	100.00	112.68	82.26	74.08	51.78	55.79

** The Asset Size & Regional Peer Group consists of the following institutions: 1st United Bancorp, Inc., Ameris Bancorp, BancTrust Financial Group, Inc., Bank of the Ozarks, Inc., BNC Bancorp, Burke & Herbert Bank & Trust Company, Cadence Financial Corporation, Capital Bank Corporation, Capital City Bank Group, Inc., Cardinal Financial Corporation, Carter Bank & Trust, CenterState Banks, Inc., Centra Financial Holdings, Inc., City Holding Company, Colony Bankcorp, Inc., Commonwealth Bankshares, Inc., Eastern Virginia Bankshares, Inc., Fidelity Southern Corporation, First Bancorp, First M&F Corporation, First National Bank of Shelby, First Security Group, Inc., FNB United Corp., Great Florida Bank, Green Bankshares, Inc., Hampton Roads Bankshares, Inc., Home BancShares, Inc., Middleburg Financial Corporation, NewBridge Bancorp, PAB Bankshares, Inc., Palmetto Bancshares, Inc., Peoples Bancorp of North Carolina, Inc., Pinnacle Financial Partners, Inc., Premier Financial Bancorp, Inc., Renasant Corporation, Savannah Bancorp, Inc., SCBT Financial Corporation, Seacoast Banking Corporation of Florida, Simmons First National Corporation, Southeastern Bank Financial Corporation, Southern BancShares (N.C.), Inc., Southern Community Financial Corporation, State Bank Financial Corporation, StellarOne Corporation, Summit Financial Group, Inc., Tennessee Commerce Bancorp, Inc., TIB Financial Corp., TowneBank, Union First Market Bankshares Corporation, Virginia Commerce Bancorp, Inc., Wilson Bank Holding Company, and Yadkin Valley Financial Corporation.

ITEM 6. Selected Financial Data.

The following consolidated selected financial data is derived from the Company's audited financial statements as of and for the five years ended December 31, 2010. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K. All of the Company's acquisitions during the five years ended December 31, 2010 were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included with the Company's results of operations since their respective dates of acquisition.

	At or for the year ended December 31,				
Five-Year Selected Financial Data (Dollars in Thousands, Except Per Share Data)	2010	2009	2008	2007	2006
Balance Sheet Summary (at end of period)					
Securities	$484,701	$493,511	$529,393	$676,195	$528,389
Loans held for sale	4,694	11,576	1,024	811	781
Loans, net of unearned income	1,386,206	1,393,931	1,298,159	1,225,502	1,284,863
Allowance for loan losses	26,482	24,277	17,782	12,833	14,549
Total assets	2,244,238	2,273,283	2,132,187	2,149,838	2,033,698
Deposits	1,620,955	1,645,960	1,503,758	1,393,443	1,394,771
Borrowings	332,087	352,558	381,791	517,843	406,556
Total liabilities	1,974,360	2,021,016	1,912,972	1,932,740	1,820,968
Stockholders' equity	269,878	252,267	219,215	217,098	212,730
Summary of Earnings					
Total interest income	$103,582	$107,934	$110,765	$127,591	$120,026
Total interest expense	29,725	38,682	44,930	59,276	48,381
Net interest income	73,857	69,252	65,835	68,315	71,645
Provision for loan losses	14,757	15,801	9,226	717	2,706
Net interest income after provision for loan losses	59,100	53,451	56,609	67,598	68,939
Non-interest income	40,693	25,186	32,297	24,831	21,323
Investment securities impairment	185	78,863	29,923	-	-
Non-interest expense	69,943	66,624	60,516	50,463	49,837
Income (loss) before income taxes	29,665	(66,850)	(1,533)	41,966	40,425
Income tax expense (benefit)	7,818	(28,154)	(3,487)	12,334	11,477
Net income (loss)	21,847	(38,696)	1,954	29,632	28,948
Dividends on preferred stock	-	2,160	255	-	-
Net income (loss) available to common shareholders	21,847	(40,856)	1,699	29,632	28,948

	At or for the year ended December 31,				
Five-Year Selected Financial Data-continued	2010	2009	2008	2007	2006
Per Share Data					
Basic earnings (loss) per common share	$1.23	$(2.75)	$0.15	$2.64	$2.58
Diluted earnings (loss) per common share	$1.23	$(2.75)	$0.15	$2.62	$2.57
Cash dividends per common share	$0.40	$0.30	$1.12	$1.08	$1.04
Book value per common share at year-end	$15.11	$14.20	$15.36	$19.61	$18.92
Selected Ratios					
Return on average assets	0.97 %	-1.83 %	0.08 %	1.39 %	1.46 %
Return on average equity	8.11 %	-16.73 %	0.86 %	13.54 %	14.32 %
Average equity to average assets	11.91 %	10.95 %	9.86 %	10.30 %	10.21 %
Dividend payout	32.52 %	NM	NM	40.91 %	40.31 %
Risk based capital to risk adjusted assets	15.33 %	13.81 %	12.94 %	12.34 %	12.69 %
Leverage ratio	9.44 %	8.51 %	9.70 %	8.09 %	8.50 %

NM — Not meaningful

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

Executive Overview

First Community Bancshares, Inc. is a financial holding company that, through its bank subsidiary, provides commercial banking services and has positioned itself as a regional community bank and a financial services alternative to larger banks which often provide less emphasis on personal relationships, and smaller community banks which lack the capital and resources to efficiently serve customer needs. The Company has focused its growth efforts on building financial partnerships and more enduring and complete relationships with businesses and individuals through a very personal and local approach to banking and financial services. The Company and its operations are guided by a strategic plan which includes growth through acquisitions and through office expansion in new market areas including strategically identified metro markets in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. While the Company's mission remains that of a community bank, management believes that entry into new markets will accelerate the Company's growth rate by diversifying the demographics of its customer base and customer prospects and by generally increasing its sales and service network.

Economy

The local economies in which the Company operates are diverse and span a five-state region. The economies of West Virginia and Southwest Virginia have significant exposure to extractive industries, such as coal, timber and natural gas, which become more active and lucrative when oil prices rise. The local economies in the central portion of North Carolina have suffered in recent years due to foreign competition in both furniture and textiles, as well as consolidation in the financial services industry. Despite these detractions, the economies in this region continue to benefit from national companies operating in the Triad, Central Piedmont, and central South Carolina areas. The Eastern Virginia local economies have, in recent years, benefited from key corporate and government activities and relocations. The economy in Eastern Tennessee continues to benefit from the stability of higher education, healthcare services and tourism.

Despite the stable and positive aspects of our regional economies, the Company's markets have experienced significant declines in residential development and construction, not inconsistent with national trends. These declines have led to contraction in residential land development and construction, which have historically been important components of the Company's lending activities. The economies of the Company's Southwest Virginia and West Virginia markets have remained stable compared to the national economy and unemployment levels are generally lower than the national average at December 31, 2010.

Competition

As the Company competes for increased market share and growth in both loans and deposits, it continues to encounter strong competition from many sources. Many of the markets targeted by the Company are also being entered by other banks in nearby and distant markets. The expansion of banks, credit unions, and other non-depository financial companies over recent years has intensified competitive pressures on core deposit generation and retention. Competitive forces impact the Company through pressure on interest yields, product fees, and loan structure and terms; however, the Company has countered these pressures with its relationship style of banking, competitive pricing and a disciplined approach to loan underwriting.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with U. S. generally accepted accounting principles ("GAAP") and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position and consolidated results of operations.

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

The Company's accounting policies are fundamental to understanding Management's Discussion and Analysis of Financial Condition and Results of Operation. The following is a summary of the Company's more subjective and complex "critical accounting policies." In addition, the disclosures presented in the Notes to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified investment valuation, determination of the allowance for loan losses, accounting for acquisitions and intangible assets, and accounting for income taxes as the accounting areas that require the most subjective or complex judgments.

Investment Securities

Management performs an extensive review of the investment securities portfolio quarterly to determine the cause of declines in the fair value of each security within each segment of the portfolio. The Company uses inputs provided by an independent third party to determine the fair values of its investment securities portfolio. Inputs provided by the third party are reviewed and corroborated by management. Evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the Company's intent and ability to hold the securities, recoverability of the invested amounts over the Company's intended holding period, severity in pricing decline, credit rating, and receipt of amounts contractually due, among other factors, are applied in determining whether a security is other-than-temporarily impaired. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable losses inherent in the portfolio, and is based on management's evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. The Company consistently applies a review process to periodically evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses.

The Company determines the allowance for loan losses by making specific allocations to impaired loans that exhibit inherent weaknesses and various credit risk factors, and general allocations to commercial, residential real estate, and consumer loans are developed giving weight to risk ratings, historical loss trends and management's judgment concerning those trends and other relevant factors. These factors may include, but are not limited to, actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, industry competition and consolidation, and the impact of government regulations. The foregoing analysis is performed by management to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas.

This risk management evaluation is applied at both the portfolio level and the individual loan level for commercial loans and credit relationships while the level of consumer and residential mortgage loan allowance is determined primarily on a total portfolio level based on a review of historical loss percentages and other qualitative factors including concentrations, industry specific factors and economic conditions. The commercial portfolio requires more specific analysis of individually significant loans and the borrower's underlying cash flow, business conditions, capacity for debt repayment and the valuation of secondary sources of payment, such as collateral. This analysis may result in specifically identified weaknesses and corresponding specific impairment allowances. While allocations are made to specific loans and classifications within the various categories of loans, the allowance for loan losses is available for all loan losses.

The use of various estimates and judgments in the Company's ongoing evaluation of the required level of allowance can significantly impact the Company's results of operations and financial condition and may result in either greater provisions against earnings to increase the allowance or reduced provisions based upon management's current view of the portfolio and economic conditions and the application of revised estimates and assumptions. Differences between actual loan loss experience and estimates are reflected through adjustments, either increasing or decreasing the loan loss provision based upon current measurement criteria.

Acquisitions and Intangible Assets

The Company may, from time to time, engage in business combinations with other companies. Purchase accounting requires the recording of underlying assets and liabilities of the entity acquired at their fair market value. Any excess of the purchase price of the business over the net assets acquired and any identified intangibles is recorded as goodwill. In instances where the price of the acquired business is less than the net assets acquired, a gain on purchase is recorded. Fair values are assigned based on quoted prices for similar assets, if readily available, or appraisal by qualified independent parties for relevant asset and liability categories. Financial assets and liabilities are typically valued using discount models which apply current discount rates to streams of cash flow. All of these valuation methods require the use of assumptions which can result in alternate valuations and varying levels of goodwill and amounts of bargain purchase gain and, in some cases, amortization expense or accretion income.

Management must also make estimates of useful or economic lives of certain acquired assets and liabilities. These lives are used in establishing amortization and accretion of some intangible assets and liabilities, such as the intangible associated with core deposits acquired in the acquisition of a commercial bank.

Goodwill is recorded as the excess of the purchase price, if any, over the fair value of the revalued net assets. Goodwill is tested annually in the month of October for possible impairment by comparing the fair value of each segment to its book value, including goodwill (step 1). If the fair value of the segment is greater than its book value, no goodwill impairment exists. However, if the book value of the segment is greater than its determined fair value, goodwill impairment may exist and further testing is required to determine the amount, if any, of the actual impairment loss (step 2). The step 1 test utilizes a combination of two methods to determine the fair value of the reporting units. For both segments, a discounted cash flow model is created projecting cash flows from operations of the business segment, the results of which are weighted 70%. For the banking segment a market multiple model utilizes price to net income and price to tangible book value inputs for closed transactions and for certain common sized institutions and the results are weighted 30%. For the insurance segment the market multiple model primarily utilizes price to sales for closed transactions and certain similar industry public companies and the results are weighted 30%. The end results for both segments are then compared to the respective book values to consider if impairment is evident. To determine the overall reasonableness of the segment computations, the combined computed fair value is then compared to the overall market capitalization of the consolidated Company to determine the level of implied control premium.

The discounted cash flow analysis uses estimates in the form of growth and attrition rates, anticipated rates of return, and discount rates. These estimates have a direct bearing on the results of the impairment testing and serve as the basis for management’s conclusions as to potential impairment.

The results of the step 1 analysis performed at October 31, 2010, determined that no impairment was evident for the banking segment. For the insurance segment the step 1 analysis indicated an impairment. A step 2 analysis was performed for the insurance segment resulting in an impairment to goodwill of $1.04 million. An adjustment to the weighting of the results, deterioration in the market multiples used, further decline in the banking and retail insurance industry valuations, or further decline in our common stock price could provide evidence in the future of potential impairment.

Income Taxes

The establishment of provisions for federal and state income taxes is a complex area of accounting which also involves the use of judgments and estimates in applying relevant tax statutes. The Company operates in multiple state tax jurisdictions and this requires the appropriate allocation of income and expense to each state based on a variety of apportionment or allocation bases. The Company is also subject to audit by federal and state tax authorities. Results of these audits may produce indicated liabilities which differ from Company estimates and provisions. The Company continually evaluates its exposure to possible tax assessments arising from audits and records its estimate of possible exposure based on current facts and circumstances.

Deferred tax assets and liabilities are recognized for the tax effects of differing carrying values of assets and liabilities for tax and financial statement purposes that will reverse in future periods. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. When uncertainty exists concerning the recoverability of a deferred tax asset, the carrying value of the asset may be reduced by a valuation allowance. The amount of any valuation allowance established is based upon an estimate of the deferred tax asset that is more likely than not to be recovered. Increases or decreases in the valuation allowance result in increases or decreases to the provision for income taxes.

Recent Acquisitions and Branching Activity

In July 2009, the Company acquired TriStone Community Bank (“TriStone”), based in Winston-Salem, North Carolina. TriStone had two full service locations in Winston-Salem, North Carolina. At acquisition, TriStone had total assets of $166.82 million, total loans of $132.23 million and total deposits of $142.27 million. Each outstanding common share of TriStone was exchanged for .5262 shares of the Company’s Common Stock and the overall acquisition cost was $10.78 million. The acquisition of TriStone significantly augmented the Company’s market presence and human resources in the Winston-Salem, North Carolina market.

In November 2008, the Company acquired Coddle Creek Financial Corp. ("Coddle Creek"), headquartered in Mooresville, North Carolina. Coddle Creek had three full service branch offices located in Mooresville, Cornelius, and Huntersville, North Carolina. At acquisition, Coddle Creek had total assets of $158.66 million, total loans of $136.99 million and total deposits of $137.06 million. Under the terms of the merger agreement, shares of Coddle Creek common stock were exchanged for .9046 shares of the Company's common stock and $19.60 in cash. The total deal value, including the cash-out of outstanding stock options, was $32.29 million. Concurrent with the Coddle Creek acquisition, Mooresville Savings Bank, Inc., SSB, the wholly-owned subsidiary of Coddle Creek, was merged into the Bank. As a result of the acquisition and preliminary purchase price allocation, $14.41 million in goodwill was recorded which represents the excess of the purchase price over the fair market value of the net assets acquired and identified intangibles.

GreenPoint Insurance Group ("GreenPoint"), a wholly-owned subsidiary of the Company, has acquired seven insurance agencies and sold one since its acquisition by the Company in September 2007. GreenPoint has issued aggregate cash consideration of $190 thousand and $803 thousand in 2010 and 2009, respectively, in connection with those acquisitions. Terms for acquisitions prior to 2010 call for issuing further cash consideration of $2.86 million if certain operating targets are met. If those targets are met, the value of the consideration ultimately paid will be added to the costs of the acquisitions. Acquisitions prior to 2010 added $692 thousand, $803 thousand, and $2.04 million of goodwill and intangibles to the Company's balance sheet in 2010, 2009, and 2008, respectively. In 2010, GreenPoint acquired one insurance agency. Cash consideration of $190 thousand was provided at the closing date of the transaction. Acquisition terms call for further cash consideration of $760 thousand if certain operating targets are met. The fair value of these payments were booked at acquisition and added $477 thousand of goodwill and intangibles to the Company's balance sheet during 2010.

Results Of Operations

2010 Compared To 2009

Net income available to common shareholders for 2010 was $21.85 million, an increase of $62.70 million from a net loss available to common shareholders of $40.86 million in 2009. Basic and diluted earnings per common share for 2010 were $1.23, compared with basic and diluted losses per common share of $2.75 in 2009. The 2009 net loss to common shareholders was impacted by pre-tax impairment charges and losses on the sale of securities amounting to $90.54 million. The Company's return on average assets was 0.97% in 2010, compared to a negative 1.83% in 2009. Return on equity was 8.11% in 2010, compared to a negative 16.73% in 2009.

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 borrowings represent the major portion of interest bearing liabilities. Net interest income was $73.86 million for 2010, compared with $69.25 million for 2009, an increase of $4.61 million, or 6.65%. Tax equivalent net interest income totaled $77.22 million for 2010, an increase of $4.67 million, or 6.44%, from $72.55 million reported for 2009. The increase in tax equivalent net interest income was due primarily to decreases in time deposits and borrowing costs as a result of repricing opportunities throughout a sustained low rate environment.

For purposes of the following discussion, comparison of net interest income is performed on a tax equivalent basis, which provides a common basis for comparing yields on earning assets exempt from federal income taxes to those assets which are fully taxable (see the table titled Average Balance Sheets and Net Interest Income Analysis).

Average earning assets increased $40.59 million while average interest bearing liabilities increased $15.91 million during 2010 as compared to the prior year. The changes include the full year impact of the July 2009 TriStone acquisition. The yield on average earning assets decreased 33 basis points to 5.40% for 2010 from 5.73% for 2009. Short-term market interest rates remained low throughout 2010, as the Federal Reserve Board held the “range” of zero to 25 basis points as its target for federal funds. The prevailing low interest rate environment was the largest driver in the overall decrease in the Company’s yield on average earning assets.

Total cost of average interest bearing liabilities decreased 53 basis points to 1.67% during 2010. The Company’s time deposit portfolio experienced downward repricing during 2010, as many of the higher-rate certificates were renewed at lower rates, or not renewed. The net result was an increase of 20 basis points in the net interest rate spread, or the difference between interest income on earning assets and expense on interest bearing liabilities, for 2010 compared to 2009. The net interest rate spread for 2010 was 3.73% compared with 3.53% for 2009. The Company’s net interest margin, or net interest income to average earning assets, of 3.90% for 2010 represents an increase of 16 basis points from 3.74% in 2009.

Loan interest income increased $2.12 million during 2010 as compared with 2009 as average volume increased, while the yield on loans decreased 15 basis points during the same period. During 2010, the yield on available-for-sale securities decreased 81 basis points to 4.33% while the average balance decreased by $44.58 million as compared with 2009.

Average interest bearing balances that the Company maintains with third party banks increased $19.75 million during 2010 to $81.99 million, while the yield decreased 3 basis points to 0.24% during the same period. Interest-bearing balances with third party banks are comprised largely of excess liquidity bearing overnight market rates.

The average balances of interest-bearing deposits increased $30.37 million, or 2.16%, while the average rate paid during 2010 decreased 59 basis points when compared to the prior year. The average rate paid on interest bearing demand deposits increased 17 basis points, while the average rate paid on savings, which includes money market and savings accounts, decreased 12 basis points in 2010 compared with 2009. In 2010, average time deposits decreased $103.07 million while the average rate paid decreased 75 basis points to 2.12% as compared with 2009. The decrease can be attributed to customers moving to more liquid investment accounts and the non-renewal of certificates at lower interest rates. The level of average non-interest bearing demand deposits increased $6.48 million to $206.40 million in 2010 compared with the prior year.

The average balance of retail repurchase agreements, which consist of collateralized retail deposits and commercial treasury accounts, decreased $4.24 million in 2010, while the average rate paid on those funds decreased 36 basis points to 1.02% during the same period. There were no federal funds purchased on average during 2010. The average balance of wholesale repurchase agreements remained unchanged at $50.00 million between 2010 and 2009, while the rate decreased 10 basis points due to structure within those borrowings. The average balance of Federal Home Loan Bank ("FHLB") advances and other borrowings decreased $10.22 million, or 4.99%, while the rate paid on those borrowings decreased 12 basis points in 2010 compared with 2009. Other borrowings include the Company's trust preferred issuance of $15.46 million, which is indexed to 3-month LIBOR.

Average Balance Sheets and Net Interest Income Analysis

	2010			2009			2008		
(Dollars in Thousands)	Average Balance	Interest (1)	Average Rate (1)	Average Balance	Interest (1)	Average Rate (1)	Average Balance	Interest (1)	Average Rate (1)
Earning Assets:									
Loans held for investment: (2)	$1,400,061	$84,906	6.06%	$1,333,112	$82,785	6.21%	$1,199,076	$80,305	6.70%
Available-for-sale securities	492,703	21,313	4.33%	537,278	27,638	5.14%	576,864	33,438	5.80%
Held-to-maturity securities	6,299	533	8.46%	7,828	643	8.21%	10,302	849	8.24%
Interest bearing deposits with banks	81,987	194	0.24%	62,242	165	0.27%	15,489	306	1.98%
Total earning assets	1,981,050	106,946	5.40%	1,940,460	111,231	5.73%	1,801,731	114,898	6.38%
Other assets	282,005			288,450			244,455		
Total	$2,263,055			$2,228,910			$2,046,186		
Interest-bearing liabilities:									
Demand deposits	$252,471	$980	0.39%	$205,997	$443	0.22%	$174,809	$292	0.17%
Savings deposits	421,184	2,751	0.65%	334,217	2,588	0.77%	312,363	4,693	1.50%
Time deposits	760,286	16,156	2.12%	863,357	24,765	2.87%	671,729	24,807	3.69%
Total interest bearing deposits	1,433,941	19,887	1.39%	1,403,571	27,796	1.98%	1,158,901	29,792	2.57%
Borrowings:									
Federal funds purchased	-	-	-	-	-	-	15,942	362	2.27%

Retail repurchase agreements	97,531	992	1.02%	101,775	1,375	1.38%	143,159	3,029	2.12%
Wholesale repurchase agreements	50,000	1,872	3.74%	50,000	1,922	3.84%	50,000	1,630	3.26%
FHLB borrowings and other debt	194,461	6,974	3.59%	204,678	7,589	3.71%	244,801	10,117	4.13%
Total borrowings	341,992	9,838	2.88%	356,453	10,886	3.05%	453,902	15,138	3.34%
Total interest bearing liabilities	1,775,933	29,725	1.67%	1,760,024	38,682	2.20%	1,612,803	44,930	2.79%
Noninterest-bearing demand deposits	206,396			199,917			211,791		
Other liabilities	11,280			24,832			19,850		
Stockholders' equity	269,446			244,137			201,742		
Total	$2,263,055			$2,228,910			$2,046,186		
Net interest income		$77,221			$72,549			$69,968	
Net interest rate spread (3)			3.73%			3.53%			3.59%
Net interest margin (4)			3.90%			3.74%			3.88%

(1) Fully taxable equivalent at the rate of 35% ("FTE").

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

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

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

Rate and Volume Analysis of Interest

The following table summarizes the changes in tax equivalent interest earned and paid detailing the amounts attributable to (i) changes in volume (change in the average volume times the prior year's average rate), (ii) changes in rate (changes in the average rate times the prior year's average volume), and (iii) changes in rate/volume (change in the average column times the change in average rate).

	Twelve Months Ended December 31, 2010 Compared to 2009 Dollar Increase/(Decrease) due to				Twelve Months Ended December 31, 2009 Compared to 2008 Dollar Increase/(Decrease) due to			
(In Thousands)	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
Interest Earned On:								
Loans (FTE)	$ 4,158	$ (2,000)	$ (37)	$ 2,121	$ 8,980	$ (5,875)	$ (625)	$ 2,480
Securities available-for-sale (FTE)	(2,291)	(4,352)	318	(6,325)	(2,296)	(3,807)	303	(5,800)
Securities held-to-maturity (FTE)	(126)	20	(4)	(110)	(204)	(3)	1	(206)
Interest-bearing deposits with other banks	53	(19)	(5)	29	926	(265)	(802)	(141)
Total interest-earning assets	1,794	(6,351)	272	(4,285)	7,406	(9,951)	(1,123)	(3,667)
Interest Paid On:								
Demand deposits	102	350	85	537	53	87	11	151
Savings deposits	670	(401)	(106)	163	328	(2,280)	(153)	(2,105)
Time deposits	(2,958)	(6,475)	824	(8,609)	7,071	(5,508)	(1,605)	(42)
Fed funds purchased	-	-	-	-	(363)	-	1	(362)
Retail repurchase agreements	(57)	(336)	10	(383)	(877)	(1,102)	326	(1,654)
Wholesale repurchase agreements	-	(50)	(0)	(50)	-	290	2	292
FHLB borrowings and other long-term debt	(379)	(246)	10	(615)	(1,657)	(1,028)	157	(2,528)
Total interest-bearing liabilities	(2,622)	(7,158)	823	(8,957)	4,555	(9,542)	(1,261)	(6,248)
Change in net interest income,tax equivalent	$ 4,416	$ 807	$ (551)	$ 4,672	$ 2,851	$ (409)	$ 139	$ 2,581

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses for 2010 was \$14.76 million, a decrease of \$1.04 million compared with 2009. The elevated loan loss provision is primarily attributable to high loss factors as net charge-offs increased during 2010. Qualitative risk factors remained high, reflective of the higher risk of inherent loan losses due to rising unemployment, recessionary pressures, and devaluations of various categories of collateral. Net charge-offs for 2010 and 2009 were \$12.55 million and \$9.31

million, respectively. Expressed as a percentage of average loans, net charge-offs increased to 0.90% for 2010 from 0.70% in 2009. See “Allowance for Loan Losses” of this item for additional information.

Noninterest Income

Noninterest income consists of all revenues which are not included in interest and fee income related to earning assets. Noninterest income for 2010, exclusive of the impact of OTTI charges, gains on the sale of securities, and acquisition gains, was $32.42 million, compared with $32.37 million in 2009. See “Financial Position – Available-for-Sale Securities” in Item 7 hereof for information on the changes and losses relating to the Company’s securities.

Wealth management income, which includes fees for trust services and commission and fee income generated by IPC, decreased $319 thousand in 2010 to $3.83 million compared with 2009, a result of a decrease in trust service revenues. Service charges on deposit accounts decreased $764 thousand in 2010 to $13.13 million compared with 2009, as a result of lower overall consumer spending leading to lower levels of certain activity charges. Other service charges, commissions and fees reflected an increase of $359 thousand in 2010 compared with 2009, due mainly to increased debit card interchange income, as the Company’s customers increasingly chose card-based payment delivery systems.

Insurance commissions earned in 2010 were $6.73 million, compared with $6.99 million in 2009. Income for the insurance subsidiary is derived primarily from commissions earned on the sale of policies.

Other operating income for 2010 was $3.66 million, an increase of $1.04 million from 2009. The largest components of the increase in other operating income for 2010 were increased revenue from secondary market mortgage operations of $797 thousand, a litigation settlement of $162 thousand, and a gain on the sale of real estate of $146 thousand.

During 2010, the Company recognized net securities gains of $8.27 million, an increase of $19.95 million from losses recognized in 2009. In December 2009, net security losses of $11.67 million included four pooled trust preferred securities sold by the Company that resulted in a loss of $14.82 million.

Noninterest Expense

Total noninterest expense was $69.94 million for 2010, an increase of $3.32 million over 2009. Salaries and benefits increased $3.14 million in 2010 compared to 2009. At December 31, 2010, the Company had total full-time equivalent employees of 683 compared to 646 at December 31, 2009. Full-time equivalent employees are calculated using the number of hours worked. GreenPoint accounted for 59 full-time equivalent employees at year-end 2010 compared with 57 at year-end 2009. Total full-time equivalent employees at the Bank and IPC increased by 37 full-time equivalent employees during 2010. Health insurance costs increased $1.39 million, or 87.70%, and 401(k) employer matching costs decreased $250 thousand, or 18.24%. The Company also deferred $296 thousand less in direct loan origination costs than in 2009 primarily due to lower origination volumes.

Occupancy expenses increased $549 thousand in 2010 to $6.44 million, compared with 2009, due to the full year effect of the acquisition of TriStone and bank building repairs.

FDIC premiums and assessments totaled $2.86 million, a decrease of $1.41 million from 2009. Included in the 2009 amount is a special assessment levied on all banks that approximated $988 thousand for the Company.

Other operating expenses increased $1.84 million in 2010 to $20.34 million, compared with 2009. The primary cause for the increase in other operating expenses was a $2.32 million increase in losses on sale of foreclosed properties, which was $3.08 million in 2010 compared to $763 thousand in 2009. Also contributing to the change in other operating expenses were increases in legal, travel, and interchange expenses of $270 thousand, $190 thousand, and $272 thousand, respectively, offset by decreases in consulting fees of $1.69 million. As of December 31, 2010, the Company recognized a goodwill impairment of $1.04 million at the insurance agency segment.

The Company uses an efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes this ratio better focuses attention on the core operating performance of the Company over time than does a GAAP-based ratio, and is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing noninterest expenses. However, this measure is supplemental and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the efficiency ratio used by the Company may not be comparable to efficiency ratios reported by other financial institutions.

In general, the efficiency ratio used by the Company is noninterest expenses as a percentage of net interest income plus noninterest income. Noninterest expenses used in the calculation exclude amortization of intangibles and non-recurring expenses. Income for the ratio is increased for the favorable effect of tax-exempt income (see Average Balance Sheets and Net Interest Income Analysis), and excludes securities gains and losses, which vary widely from period to period without appreciably affecting operating expenses, non-recurring gains and losses, and OTTI charges.

The measure is different from the GAAP-based efficiency ratio, which also is presented in this report, which is calculated using noninterest expense and income amounts as shown on the face of the Consolidated Statements of Income. Both types of efficiency ratio calculations are set forth and are reconciled in the table below.

The (non-GAAP) efficiency ratios for continuing operations for 2010, 2009, and 2008 were 59.09%, 59.10%, and 57.54%, respectively. The following table details the components used in calculation of the efficiency ratios.

	2010		2009		2008	
(Dollars in Thousands)						
GAAP-based efficiency ratio						
Noninterest expenses	$69,943		$66,624		$60,516	
Net interest income plus noninterest income	$114,365		$15,575		$68,209	
GAAP-based efficiency ratio	61.16	%	427.76	%	88.72	%
Non-GAAP efficiency ratio						
Noninterest expenses — GAAP-based	$69,943		$66,624		$60,516	
Less non-GAAP adjustments:						
Foreclosed property expense	(3,079	)	(763	)	(382	)
Amortization of intangibles	(1,032	)	(1,028	)	(689	)
Prepayment penalties on FHLB advances	-		(88	)	(1,647	)
Merger expenses	-		(1,726	)	-	
FDIC special assessments	-		(988	)	-	
Goodwill impairment	(1,039	)	-		-	
Other non-core, non-recurring expense items	(4	)	(225	)	(51	)
Adjusted non-interest expenses	64,789		61,806		57,747	
Net interest income plus noninterest income — GAAP-based	114,365		15,575		68,209	
Plus non-GAAP adjustment:						
Tax equivalency	3,364		3,297		4,133	
Less non-GAAP adjustments:						
Security (gains) losses	(8,273	)	11,673		(1,899	)
Other-than-temporary security impairments	185		78,863		29,923	
Acquisition gains	-		(4,493	)	-	
Other non-core, non-recurring income items	-		(340	)	-	
Adjusted net interest income plus noninterest income	109,641		104,575		100,366	
Non-GAAP efficiency ratio	59.09	%	59.10	%	57.54	%

Income Tax Expense

Income tax expense is comprised of federal and state current and deferred income taxes on pre-tax earnings of the Company. Income taxes as a percentage of pre-tax income may vary significantly from statutory rates due to items of income and expense which are excluded, by law, from the calculation of taxable income. These items are commonly referred to as permanent differences. The most significant permanent differences for the Company include income on state and municipal securities which are exempt from federal income tax, certain dividend payments which are deductible by the Company, and the increases in the cash surrender values of life insurance policies.

Consolidated income taxes for 2010 were $7.82 million compared with an income tax benefit of $28.15 million in 2009. For the year ended 2010, the effective tax expense rate was 26.35%. The effective tax rate for 2009 was not meaningful due to the pre-tax loss.

2009 Compared To 2008

The net loss available to common shareholders for 2009 was $40.86 million, a decrease of $42.56 million from net income available to common shareholders of $1.70 million in 2008. Basic and diluted loss per common share for 2009 was $2.75, compared with basic and diluted earnings per common share of $0.15 in 2008. The significant decline in earnings in 2009 reflects pre-tax impairment charges and losses on the sale of securities amounting to $90.54 million. The Company's return on average assets was a negative 1.83% in 2009 and 0.08% in 2008. Return on equity was a negative 16.73% in 2009 and 0.86% in 2008.

The Company acquired TriStone Community Bank, a $166.82 million bank, in July 2009. As a result of the acquisition, a gain of $4.49 million was recorded, which represents the excess fair market value of the net assets acquired and indentified intangibles over the purchase price. The net operations of TriStone were not significant to the Company's 2009 results of operations.

Net Interest Income

Net interest income was $69.25 million for 2009, compared with $65.84 million for 2008. Tax equivalent net interest income totaled $72.55 million for 2009, an increase of $2.58 million from the $69.97 million reported for 2008.

For purposes of the following discussion, comparison of net interest income is performed on a tax equivalent basis, which provides a common basis for comparing yields on earning assets exempt from federal income taxes to those assets which are fully taxable (see the table titled Average Balance Sheets and Net Interest Income Analysis).

Average earning assets increased $138.73 million while average interest bearing liabilities increased $147.22 million during 2009 as compared to the prior year in each case over the comparable period. The increases primarily reflect the acquisitions of TriStone and Coddle Creek. The yield on average earning assets decreased 65 basis points to 5.73% for 2009 from 6.38% for 2008. Short-term market interest rates remained low throughout 2009, as the Federal Reserve Board held the "range" of zero to 25 basis points as its target for federal funds. The prevailing low interest rate environment was the largest driver in the overall decrease in the Company's yield on average earning assets.

Total cost of average interest bearing liabilities decreased 59 basis points to 2.20% during 2009. The Company's time deposit portfolio experienced downward repricing during 2009, as many of the higher-rate certificates were renewed at lower rates, or not renewed. The net result was a decrease of 6 basis points in the net interest rate spread, or the difference between interest income on earning assets and expense on interest bearing liabilities, for 2009 compared to 2008. The net interest rate spread for 2009 was 3.53% compared with 3.59% for 2008. The Company's net interest margin, or net interest income to average earning assets, of 3.74% for 2009 represents a decrease of 14 basis points from 3.88% in 2008.

Loan interest income increased $2.48 million during 2009 as compared with 2008 as volume increased, while the yield on loans decreased 49 basis points during the same period. During 2009, the yield on available-for-sale securities decreased 66 basis points to 5.14% while the average balance decreased by $39.59 million as compared with 2008.

Average interest bearing balances with banks increased $46.75 million during 2009 to $62.24 million, while the yield decreased 171 basis points to 0.27% during the same period. These balances consist primarily of overnight investments, and the yield as compared with 2008 on these balances is primarily affected by changes in the target federal funds rate. The Company determined that it was prudent to maintain a high level of liquidity as a measure of safety during the recessionary economic conditions experienced in 2009, particularly through the first two quarters of 2009, as a result of market volatility.

The average total cost of interest bearing deposits decreased 59 basis points in 2009 compared with 2008. The average rate paid on interest bearing demand deposits increased 5 basis points, while the average rate paid on savings, which includes money market and savings accounts, decreased 73 basis points in 2009 compared with 2008. In 2009, average time deposits increased $191.63 million while the average rate paid decreased 82 basis points to 2.87% as compared with 2008. The increase in time deposits reflects the full year impact of the acquisition of Coddle Creek and the partial year impact of the acquisition of TriStone. The level of average non-interest bearing demand deposits decreased $11.87 million to $199.92 million in 2009 compared with the prior year, but was offset by a $31.19 million increase in interest bearing demand deposits.

Average federal funds purchased decreased $15.94 million in 2009 compared with 2008 to a zero balance, as the Company experienced historically high levels of liquidity. Average retail repurchase agreements decreased $41.38 million in 2009, while the average rate paid on those funds decreased, as they are closely tied to the target federal funds rate and 3-month LIBOR. Average Federal Home Loan Bank ("FHLB") advances and other borrowings decreased $40.12 million while the rate paid on those borrowings decreased 42 basis points in 2009 compared with 2008. The

Company prepaid a $25.00 million FHLB advance in June 2009. Other borrowings include the Company's trust preferred issuance of $15.46 million, which is indexed to 3-month LIBOR.

Provision for Loan Losses

The provision for loan losses for 2009 was $15.80 million, an increase of $6.58 million compared with 2008. The increase in loan loss provision is primarily attributable to rising loss factors as net charge-offs escalated during 2009. Qualitative risk factors were also higher, reflective of the higher risk of inherent loan losses due to rising unemployment, recessionary pressures, and devaluations of various categories of collateral, including real estate and marketable securities. Net charge-offs for 2009 and 2008 were $9.31 million and $5.45 million, respectively. Expressed as a percentage of average loans, net charge-offs increased to 0.70% for 2009 from 0.45% in 2008.

Noninterest Income

Noninterest income for 2009, exclusive of the $78.86 million OTTI charges, $11.67 million loss on the sale of securities, and $4.49 million in gain resulting from the TriStone acquisition, was $32.37 million, compared with $30.40 million in 2008. See “Financial Position – Available-for-Sale Securities” in Item 7 hereof for information on the changes and losses relating to the Company’s securities.

Wealth management income, which includes fees for trust services and commission and fee income generated by IPC, increased $47 thousand in 2009 compared with 2008, a result of the increases in revenues at IPC. Service charges on deposit accounts decreased $175 thousand as a result of lower overall consumer spending leading to lower levels of certain activity charges. Other service charges, commissions and fees reflected an increase of $467 thousand in 2009 compared with 2008, due mainly to increased debit card interchange income and ATM service fees, as the Company’s customers increasingly chose card-based payment delivery systems.

Insurance commissions earned in 2009 were $6.99 million, compared with $4.99 million in 2008. Income for the insurance subsidiary is derived primarily from commissions earned on the sale of policies. The increase is due largely to a sizeable acquisition of an insurance agency by GreenPoint located in Warrenton, Virginia, that was completed in December 2008.

Other operating income for 2009 was $2.62 million, a decrease of $371 thousand from 2008. The largest components of that difference are decreases in revenue from FHLB stock dividends and secondary market mortgage operations of $432 thousand and $207 thousand, respectively, net of a $340 thousand gain on the disposition of a GreenPoint office.

During 2009, the Company recognized net securities losses of $11.67 million, a decrease of $13.57 million from gains recognized in 2008. In December 2009, the Company sold four pooled trust preferred securities that resulted in a loss of $14.82 million.

Noninterest Expense

Total noninterest expense was $66.62 million for 2009, an increase of $6.11 million over 2008. Salaries and benefits increased $1.51 million. At December 31, 2009, the Company had total full-time equivalent employees of 646 compared to 638 at December 31, 2008. Full-time equivalent employees are calculated using the number of hours worked. GreenPoint accounted for 57 full-time equivalent employees at year-end 2009 compared with 50 at year-end 2008. Total full-time equivalent employees at the Bank and IPC remained relatively stable increasing by 19 full-time equivalent employees from the acquisition of TriStone. Health insurance costs decreased $732 thousand, or 31.59%, and 401(k) employer matching costs increased $139 thousand, or 11.36%. The Company also deferred $231 thousand less in direct loan origination costs than in 2008.

Occupancy expenses increased $787 thousand in 2009 compared with 2008, due to the full year effect of new branches, the full year impact of the acquisition of Coddle Creek, and the partial year effect of the acquisition of TriStone.

During 2009, the Company prepaid a $25.00 million FHLB advance. The expense associated with that prepayment was $88 thousand.

FDIC premiums and assessments totaled $4.26 million, an increase of $4.06 million from 2008. Included in the 2009 amount is a special assessment levied that approximated $988 thousand. The Company also incurred expenses related to the TriStone merger of $1.73 million.

Other operating expenses decreased $760 thousand in 2009 compared with 2008. Contributing to the change were decreases in advertising expenses, consulting fees, and legal fees of $689 thousand, $350 thousand, and $238 thousand, respectively, offset by increases in service fees of $433 thousand.

The Company uses an efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes this ratio better focuses attention on the core operating performance of the Company over time than does a GAAP-based ratio, and is highly useful in comparing period-to-period operating performance of the Company's core business operations. It is used by management as part of its assessment of its performance in managing noninterest expenses. However, this measure is supplemental and is not a substitute for an analysis of performance based on GAAP measures. The reader is cautioned that the efficiency ratio used by the Company may not be comparable to efficiency ratios reported by other financial institutions.

In general, the efficiency ratio used by the Company is noninterest expenses as a percentage of net interest income plus noninterest income. Noninterest expenses used in the calculation exclude amortization of intangibles and non-recurring expenses. Income for the ratio is increased for the favorable effect of tax-exempt income (see Average Balance Sheets and Net Interest Income Analysis), and excludes securities gains and losses, which vary widely from period to period without appreciably affecting operating expenses, non-recurring gains and losses, and OTTI charges. The measure is different from the GAAP-based efficiency ratio, which also is presented in this report, which is calculated using noninterest expense and income amounts as shown on the face of the Consolidated Statements of Income. Both types of efficiency ratio calculations are set forth and are reconciled in the table below.

Income Tax Expense

Income tax expense is comprised of federal and state current and deferred income taxes on pre-tax earnings of the Company. Income taxes as a percentage of pre-tax income may vary significantly from statutory rates due to items of income and expense which are excluded, by law, from the calculation of taxable income. These items are commonly referred to as permanent differences. The most significant permanent differences for the Company include income on state and municipal securities which are exempt from federal income tax, certain dividend payments which are deductible by the Company, and the increases in the cash surrender values of life insurance policies.

Consolidated income taxes for 2009 were a benefit of $28.15 million compared with a benefit of $3.49 million in 2008. The effective tax rates for 2009 and 2008 were not meaningful due to a pre-tax loss and level of pre-tax income, respectively.

Financial Position

Available-for-Sale Securities

Available-for-sale securities were $480.06 million at December 31, 2010, compared with $486.06 million at December 31, 2009, a decrease of $5.99 million. The market value of securities available-for-sale as a percentage of amortized cost was 96.40% and 96.34% at December 31, 2010 and 2009, respectively. At December 31, 2010, the average life and duration of the portfolio were 6.8 years and 5.7, respectively. Average life and duration at December 31, 2009, were 6.0 years and 4.9, respectively.

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible OTTI. This review includes an analysis of the facts and circumstances of each individual investment such as the length of time the fair value has been below cost, timing and amount of contractual cash flows, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent to hold the security to recovery or maturity. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In the instance of a debt security which is determined to be other-than-temporarily impaired, the Company determines the amount of the impairment due to credit and the amount due to other factors. The amount of impairment related to credit is recognized in the Consolidated Statements of Income and the remainder of the impairment is recognized in other comprehensive income.

During the years ended December 31, 2010 and 2009, the Company recognized credit-related OTTI charges in earnings of $134 thousand and $77.59 million, respectively, related to beneficial interest debt securities. In addition, the Company recognized impairment charges of $51 thousand and $1.27 million on certain equity holdings during 2010 and 2009, respectively.

The following table provides details regarding the type and credit ratings within the securities portfolios as of December 31, 2010.

(Amounts in Thousands)	Par Value	Fair Value	Amortized Cost	Unrealized Gains/(Losses) Recognized in AOCI (1)	OTTI (2) in AOCI (1)
Available for sale					
U.S. Government agency securities	$10,000	$9,832	$10,000	$ (168)	$-
Agency mortgage-backed securities	205,867	215,013	209,281	5,732	-
Non-Agency mortgage-backed securities					
D	21,490	11,277	19,181	(7,904)	(7,904)
Total	21,490	11,277	19,181	(7,904)	(7,904)
States and political subdivisions					
AAA	13,022	12,347	13,004	(657)	-
AA	124,448	122,467	124,446	(1,979)	-
A	28,942	29,498	28,886	612	-
BBB	6,116	6,174	6,068	106	-
Not rated	6,265	5,652	5,745	(93)	-
Total	178,793	176,138	178,149	(2,011)	-
Single-issue bank trust preferred securities					
A	7,130	5,625	6,953	(1,328)	-
BBB	15,300	11,986	14,966	(2,980)	-
BB	34,125	23,633	33,675	(10,042)	-
Total	56,555	41,244	55,594	(14,350)	-
Pooled trust preferred securities					
C	8,072	264	23	241	-
Total	8,072	264	23	241	-
Corporate FDIC insured					
AAA	25,000	25,660	25,282	378	-
Total	25,000	25,660	25,282	378	-
Equity securities	-	636	495	141	-
Total	$505,777	$480,064	$498,005	$ (17,941)	$(7,904)
Held to maturity					
States and political subdivisions					
AA	$3,370	$3,397	$3,346	$ 51	$-
A	654	646	631	15	-
BBB	660	661	660	1	-
Total	$4,684	$4,704	$4,637	$ 67	$-

(1) Accumulated other comprehensive income
(2) Other-than-temporary impairment

Municipal ratings reflect the rating of the underlying issuers and do not take into account any insurance on the security. From September 2009 to December 2010, the Company sold $9.65 million of municipal securities as part of its monitoring process. The Company continued those efforts during the first two months of 2011. Generally, the securities sold did not exhibit any meaningful credit quality deterioration, rather were at risk of losing market value.

The following table details amortized cost and fair value of available-for-sale securities as of December 31, 2010, 2009, and 2008.

	December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Amounts in Thousands)						
U.S. Government agency securities	$10,000	$9,832	$25,421	$25,276	$53,425	$54,818
States and political subdivisions	178,149	176,138	133,185	135,601	163,042	159,419
Trust preferred securities:						
Single-issue	55,594	41,244	55,624	41,110	55,491	33,542
Pooled	23	264	1,648	1,648	93,269	32,511
Total trust preferred securites	55,617	41,508	57,272	42,758	148,760	66,053
Corporate FDIC insured	25,282	25,660	-	-	-	-
Mortgage-backed securities:						
Agency	209,281	215,013	260,220	264,218	212,315	216,962
Non-Agency prime residential	-	-	5,743	5,170	7,423	5,766
Non-Agency Alt-A residential	19,181	11,277	20,968	11,301	10,750	10,750
Total mortgage-backed securities	228,462	226,290	286,931	280,689	230,488	233,478
Equity securities	495	636	1,717	1,733	7,979	6,955
Total	$498,005	$480,064	$504,526	$486,057	$603,694	$520,723

At December 31, 2010, the Company held separate issuances of trust preferred securities from one issuer which had book and market values of $28.73 million and $19.56 million, respectively.

Held-to-Maturity Securities

Investment securities classified as held-to-maturity are comprised primarily of high grade state and municipal bonds. The portfolio totaled $4.64 million at December 31, 2010, compared with $7.45 million at December 31, 2009. This decrease is reflective of continuing maturities and calls within the portfolio. The market value of held-to-maturity investment securities was 101.44% and 101.68% of book value at December 31, 2010 and 2009, respectively.

The following table details amortized cost and fair value of held-to-maturity securities at December 31, 2010, 2009, and 2008.

	December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Amounts in Thousands)						
States and political subdivisions	$4,637	$4,704	$7,454	$7,579	$8,670	$8,802
Total	$4,637	$4,704	$7,454	$7,579	$8,670	$8,802

Loans Held for Sale

At December 31, 2010, the Company held $4.69 million of mortgage loans for sale to the secondary market. The gross notional amount of outstanding commitments to originate mortgage loans for customers at December 31, 2010, was $7.57 million on 48 loans. The Company sells these mortgages on a best efforts basis and generates non-interest income through origination fees, servicing release premiums, and yield spread gains.

Loans Held for Investment

Total loans held for investment decreased $7.73 million to $1.39 billion at December 31, 2010. The average loan to deposit ratio increased to 85.35% for 2010, compared with 83.14% for 2009. Average loans held for investment for 2010 of $1.40 billion increased $66.95 million when compared with the average loans held for investment for 2009 of $1.33 billion.

The held for investment loan portfolio continues to be well diversified among loan types and industry segments. The following table presents the various loan categories and changes in composition at year-end 2006 through 2010.

Loan Portfolio Summary

	December 31,				
	2010	2009	2008	2007	2006
(Amounts in Thousands)					
Commercial loans					
Construction — commercial	$42,694	$47,469	$58,264	$72,805	$64,287
Land development	16,650	22,832	20,671	30,017	36,972
Other land loans	24,468	32,566	28,590	27,497	23,065
Commercial and industrial	94,123	95,115	83,632	93,850	104,306
Multi-family residential	67,824	65,603	46,754	37,691	40,448
Non-farm, non-residential	351,904	343,975	315,547	313,845	345,517
Agricultural	1,342	1,251	1,402	2,410	2,338
Farmland	36,954	41,034	45,337	34,575	35,101
Total commercial loans	635,959	649,845	600,197	612,690	652,034
Real estate loans					
Home equity lines	111,620	111,597	90,556	67,628	59,861
Single family residential mortgage	549,157	545,770	512,017	430,718	446,512
Owner-occupied construction	18,349	22,028	23,085	32,991	34,242
Total real estate loans	679,126	679,395	625,658	531,337	540,615
Consumer loans	63,475	60,090	66,258	75,451	88,677
Other	7,646	4,601	6,046	6,027	3,549
Total loans	1,386,206	1,393,931	1,298,159	1,225,505	1,284,875
Less unearned income	-	-	1	3	13
	1,386,206	1,393,931	1,298,158	1,225,502	1,284,862
Less allowance for loan losses	26,482	24,277	17,782	12,833	14,549
Net loans	$1,359,724	$1,369,654	$1,280,376	$1,212,669	$1,270,313

The Company maintained no foreign loans in the periods presented. The Company's loans are made primarily in the five-state region in which it operates. The Company had no concentrations of loans to one borrower representing 10% or more of outstanding loans at December 31, 2010. At December 31, 2010, the Company had 11.23% of outstanding loans concentrated in the lessors of residential buildings segment.

At December 31, 2010, commercial loans comprised 45.88% 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, natural gas producers, automobile dealers, and retail and wholesale merchants. Commercial real estate projects represent a variety of sectors of the commercial real estate market, including single family and apartment lessors, commercial real estate lessors, residential land developers and hotel/motel operators. Underwriting standards require that comprehensive reviews and independent evaluations be performed on credits exceeding predefined size limits on commercial loans. Updates to these loan reviews are done periodically or on an annual basis depending on the size of the loan relationship.

At December 31, 2010, retail oriented real estate loans comprised 48.99% of the total loan portfolio. Residential real estate loans include loans to individuals within the Company's market footprint for the acquisition or construction of owner-occupied homes, as well as, home equity loans and lines of credit. Underwriting standards require that borrowers meet certain credit, income and collateral standards to qualify.

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The following table details the maturities and rate sensitivity of the Company's loan portfolio at December 31, 2010.

	Remaining Maturities			
	One Year and Less	Over One to Five Years	Over Five Years	Total
(Amounts in Thousands)				
Commercial loans				
Construction — commercial	$9,020	$33,674	$-	$42,694
Land development	12,550	4,050	50	16,650
Other land loans	10,320	13,584	564	24,468
Commercial and industrial	36,827	51,652	5,644	94,123
Multi-family residential	22,056	39,281	6,487	67,824
Non-farm, non-residential	60,749	252,750	38,405	351,904
Agricultural	539	776	27	1,342
Farmland	6,334	22,457	8,163	36,954
Total commercial loans	158,395	418,224	59,340	635,959
Consumer real estate loans				
Home equity lines	6,023	25,251	80,346	111,620
Single family residential mortgage	37,263	138,483	373,411	549,157
Owner-occupied construction	9,835	6,527	1,987	18,349
Total consumer real estate loans	53,121	170,261	455,744	679,126
Consumer loans	20,724	40,086	2,665	63,475
Other	7,646	-	-	7,646
	$239,886	$628,571	$517,749	$1,386,206
Rate Sensitivity:				
Predetermined rate	$107,849	$457,495	$195,575	$760,919
Floating or adjustable rate	132,037	158,633	334,617	625,287
	$239,886	$616,128	$530,192	$1,386,206

The balance in owner-occupied construction with remaining maturities of over five years is derived from loans that a had one time closing that has not converted to principal and interest payments.

Allowance for Loan Losses

The allowance for loan losses is increased by charges to earnings in the form of provisions and by recoveries of prior loan charge-offs, and decreased by loan charge-offs. The provisions are calculated to bring the allowance to a level, which, according to a systematic process of measurement, is reflective of the amount that management deems adequate to absorb probable losses. Additional information regarding the determination of the allowance for loan losses can be found in Note 1 – Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 hereof.

The allowance for loan losses was $26.48 million at December 31, 2010, compared with $24.28 million at December 31, 2009, an increase of $2.21 million. The increase in the allowance was primarily influenced by the effect of net charge-off activity during the year, which totaled $12.55 million as of December 31, 2010, as compared to $9.31 million as of December 31, 2009.

The allowance for loan loss methodology utilizes a rolling five year average loss history that is adjusted for current qualitative or environmental factors that management deem likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience. These factors may include, but are not limited to, actual versus estimated losses, regional and national economic conditions, including unemployment trends, business segment and portfolio concentrations, industry competition, interest rate trends, and the impact of government regulations. Management considers the allowance adequate based upon its analysis of the portfolio as of December 31, 2010; however, no assurance can be made that additions to the allowance for loan losses will not be required in future periods.

The following table details loan charge-offs and recoveries by loan type for the five years ended December 31, 2006, through 2010.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
(Dollars in Thousands)					
Allowance for loan losses at beginning of period	$24,277	$17,782	$12,833	$14,549	$14,736
Acquisition balances	-	-	1,169	-	-
Charge-offs:					
Construction — commercial	1,342	173	605	75	51
Land development	736	925	1,430	-	-
Other land loans	633	443	44	-	-
Commercial and industrial	2,900	3,263	939	741	895
Multi-family residential	697	-	51	53	-
Non-farm, non-residential	1,666	1,076	555	983	602
Agricultural	6	7	60	-	-
Farmland	-	50	-	97	25
Home equity lines	1,089	395	333	116	-
Single family residential mortgage	3,259	1,899	1,292	846	1,579
Owner-occupied construction	4	101	126	-	-
Consumer loans	514	1,043	952	843	1,211
Other	756	980	984	541	180
Total charge-offs	13,602	10,355	7,371	4,295	4,543
Recoveries:					
Construction — commercial	17	21	5	3	1
Land development	9	-	-	-	-
Other land loans	11	-	-	-	-
Commercial and industrial	83	459	572	442	461
Multi-family residential	12	-	-	9	-
Non-farm, non-residential	144	106	763	238	384
Agricultural	32	4	1	-	-
Farmland	31	-	-	31	36
Home equity lines	12	1	-	40	-
Single family residential mortgage	91	110	121	527	275
Owner-occupied construction	6	2	-	-	-
Consumer loans	163	346	243	356	450
Other	439	-	220	216	43
Total recoveries	1,050	1,049	1,925	1,862	1,650
Net charge-offs	12,552	9,306	5,446	2,433	2,893
Provision charged to operations	14,757	15,801	9,226	717	2,706
Allowance for loan losses at end of period	$26,482	$24,277	$17,782	$12,833	$14,549
Ratio of net charge-offs to average loans outstanding	0.90 %	0.70 %	0.45 %	0.19 %	0.22 %
Ratio of allowance for loan losses to total loans outstanding	1.91 %	1.74 %	1.37 %	1.05 %	1.13 %

The following tables detail the allocation of the allowance for loan losses and the percent of loans in each category to total loans for the five years ended December 31, 2010. The Company modified its loan loss reserve methodology during 2008 to increase the number of individual loan categories being analyzed, which results in different loan segmentation for 2007 and 2006.

	December 31,								
	2010			2009			2008		
(Dollars in Thousands)									
Construction — commercial	$1,472	5	%	$1,191	5	%	$867	5	%
Land development	1,772	7	%	2,175	9	%	1,296	7	%
Other land loans	747	3	%	648	3	%	71	0	%
Commercial and industrial	4,511	17	%	5,096	21	%	2,519	15	%
Multi-family residential	1,081	4	%	449	2	%	117	1	%
Non-farm, non-residential	2,846	12	%	3,931	17	%	3,154	18	%
Agricultural	19	0	%	42	0	%	31	0	%
Farmland	70	0	%	75	0	%	49	0	%
Home equity lines	2,138	8	%	1,198	5	%	749	4	%
Single family residential mortgage	9,869	37	%	6,953	29	%	6,019	35	%
Owner-occupied construction	193	1	%	186	1	%	431	3	%
Consumer loans	1,764	6	%	1,990	8	%	2,029	12	%
Unallocated	-			343			450		
Total	$26,482	100	%	$24,277	100	%	$17,782	100	%

	December 31,					
	2007			2006		
(Dollars in Thousands)						
Commercial, financial and agricultural	$7,118	39	%	$8,153	41	%
Real estate — construction	409	13	%	378	12	%
Real estate — mortgage	3,613	41	%	3,745	39	%
Installment loans to individuals	1,693	7	%	2,273	8	%
Total	$12,833	100	%	$14,549	100	%

Risk Elements

Non-performing assets include loans on non-accrual status, newly restructured loans, loans contractually past due 90 days or more and still accruing interest, and other real estate owned ("OREO"). The levels of non-performing assets for the last five years ending December 31, 2010, are presented in the following table.

	December 31,				
	2010	2009	2008	2007	2006
(Dollars in Thousands)					
Non-accrual loans	$19,414	$17,527	$12,763	$2,923	$3,813
Restructured loans	5,325	1,390	-	-	-
Loans 90 days or more past due and still accruing interest	-	-	-	-	-
Total non-performing loans	24,739	18,917	12,763	2,923	3,813
Other real estate owned	4,910	4,578	1,326	545	258
Total non-performing assets	$29,649	$23,495	$14,089	$3,468	$4,071
Restructured loans performing in accordance with modified terms	$3,911	$2,062	$113	$245	$272
Non-performing loans as a percentage of total loans	1.78 %	1.36 %	0.98 %	0.24 %	0.30 %
Non-performing assets as a percentage of total loans and other real estate owned	2.13 %	1.68 %	1.08 %	0.28 %	0.32 %
Allowance for loan losses as a percentage of non-performing loans	107.0 %	128.3 %	139.3 %	439.0 %	381.6 %
Allowance for loan losses as a percentage of non-performing assets	89.3 %	103.3 %	126.2 %	370.0 %	357.4 %

Total non-performing assets were $29.65 million at December 31, 2010, compared with $23.50 million at December 31, 2009, an increase of $6.15 million. Non-performing assets increased during 2010 as the broad economy and borrowers continued to suffer through recessionary conditions. Included in non-performing assets are $5.33 million of unseasoned loan restructurings at December 31, 2010. During 2010, the Company was more active in restructuring loan terms for creditworthy customers. Approximately $828 thousand of the 2010 provision for loan losses was related to lowering the interest rate for borrowers under restructured terms. Non-accrual loans increased by $1.89 million to $19.41 million at December 31, 2010, compared with $17.53 million at December 31, 2009. A majority of the increase in non-accrual loans can be attributed to a $2.59 million increase in the commercial and industrial segment and a $1.48 million increase in the multi-family residential segment. These increases were offset by a $1.14 million decrease in the commercial construction segment and a $1.35 million decrease in the land development segment.

Ongoing activity within the classification and categories of non-performing loans includes collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the non-performing classification as a result of changing customer business conditions. There were no loans 90 days past due and still accruing at December 31, 2010 and 2009. OREO was $4.91 million at December 31, 2010, an increase of $332 thousand from December 31, 2009, and is carried at the lesser of estimated net realizable value or cost. OREO increased from December 31, 2009, as non-performing loans were converted to foreclosed real estate. The principal components of OREO at December 31, 2010, are owner-occupied commercial real estate, residential real estate, and acquisition and development loans of

$1.55 million, $1.30 million, and $884 thousand, respectively. OREO located in Winston-Salem and Mooresville, North Carolina; Richmond, Virginia; and Tennessee accounts for 27.71%, 25.24%, and 20.30%, respectively, of total OREO. The present foreclosure process in North Carolina prohibits more timely resolution of real estate secured loans within that state. At December 31, 2010, OREO consisted of 34 properties with an average value of $225 thousand and an average age of 8 months.

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

The Company has considered all loans determined to be impaired in the evaluation of the adequacy of the allowance for loan losses at December 31, 2010. The following table presents additional detail of non-performing and restructured loans for the five years ended December 31, 2010. Additional information regarding non-performing loans can be found in Note 5 – Allowance for Loan Losses of the Notes to Consolidated Financial Statements included in Item 8 hereof.

	December 31,				
	2010	2009	2008	2007	2006
(Amounts in Thousands)					
Non-accruing loans	$19,414	$17,527	$12,763	$2,923	$3,813
Restructured loans	5,325	1,390	-	-	-
Loans past due over 90 days and still accruing interest	-	-	-	-	-
Restructured loans performing in accordance with modified terms	3,911	2,062	113	245	272
Gross interest income which would have been recorded under original terms of non-accruing and restructured loans	1,341	698	458	301	397
Actual interest income during the period	757	395	89	179	286

Although total delinquent loans increased during 2010, the Company has not experienced the significant credit quality deterioration experienced by many of its peers. Non-performing loans, comprised of non-accrual loans and unseasoned loan restructurings, measured 1.78% and 1.36% of total loans as of December 31, 2010 and 2009, respectively. By way of comparison, the Company's Federal Reserve Board peer group of bank holding companies with total assets between $1 and $3 billion at September 30, 2010, had non-performing loans measured at 3.71% of total loans.

The primary composition of non-accrual loans is: 32.78% single family residential mortgage; 24.06% non-farm, non-residential commercial; 20.22% commercial and industrial; and 12.69% multi-family residential. Approximately $3.76 million, or 19.35%, of non-accrual loans is attributed to the TriStone loan portfolio that was acquired during the third quarter of 2009.

The Company's provision for loan losses and the allowance for loan losses remained elevated during 2010 due to the weakness in the real estate market and the recessionary economic conditions experienced during the year. As a result of the increase in charge-offs and weakness in the broader economy, the Company deemed it appropriate to maintain increased key qualitative factors that adjust upward the historical loss rates in its allowance model. Those increases have resulted in increases in the allowance as a percentage of total loans.

As of December 31, 2010, there were no outstanding commitments to lend additional dollars to borrowers related to restructured loans.

The Company maintains an active and robust problem credit identification system. When a credit is identified as exhibiting characteristics of weakening, the Company will assess the credit for potential impairment. Examples of weakening include delinquency and deterioration of the borrower's capacity to repay as determined by our ongoing credit review function. As part of the impairment review, the Company evaluates the current collateral value. It is the Company's standard practice to obtain updated third party collateral valuations to assist management in measuring potential impairment of a credit and the amount of the impairment to be recorded, if any.

Internal collateral valuations are generally performed within two to four weeks of the original identification of potential impairment and receipt of the third party valuation. The internal valuation is performed by comparing the original appraisal to current local real estate market conditions and experience and considers liquidation costs. The result of the internal valuation is compared to the outstanding loan balance, and, if warranted, a specific impairment reserve will be established at the completion of the internal evaluation.

A third party evaluation is typically received within thirty to forty-five days of the completion of the internal evaluation. Once received, the third party evaluation is reviewed by Special Assets staff and/or Credit Appraisal staff for reasonableness. Once the evaluation is reviewed and accepted, discounts to fair market value are applied based upon such factors as the bank’s historical liquidation experience of like collateral, and an estimated net realizable value is established. That estimated net realizable value is then compared to the outstanding loan balance to determine the amount of specific impairment reserve. The specific impairment reserve, if necessary, is adjusted to reflect the results of the updated evaluation. A specific impairment reserve is generally maintained on impaired loans during the time period while awaiting receipt of the third party evaluation as well as on impaired loans that continue to make some form of payment and liquidation is not imminent. Impaired loans not meeting the aforementioned criteria and that do not have a specific impairment reserve typically have been previously written down through a partial charge-off to their net realizable value.

The Company's Special Assets staff assumes the management and monitoring of all loans determined to be impaired. While awaiting the completion of the third party appraisal, the Company generally begins to complete the tasks necessary to gain control of the collateral and prepare for liquidation, including, but not limited to engagement of counsel, inspection of collateral, and continued communication with the borrower, if appropriate. Special Assets staff also regularly reviews the relationship to identify any potential adverse developments during this time.

Generally, the only difference between current appraised value, adjusted for liquidation costs, and the carrying amount of the loan less the specific reserve is any downward adjustment to the appraised value that the Company's Special Assets staff determines appropriate. These differences generally consist of costs to sell the property, as well as a deflator for the devaluation of property when banks are the sellers, and we deem these fair value adjustments.

Based on prior experience, the Bank does not generally return loans to performing status after the loans have been partially charged off. Generally, credits identified as impaired move quickly through the process towards ultimate resolution of the problem credit.

Deposits

Total deposits were $1.62 billion at December 31, 2010, a decrease of $25.01 million from $1.65 billion at December 31, 2009. Non-interest bearing demand deposits decreased by $3.09 million while interest bearing demand deposits increased $30.51 million during 2010. Savings deposits, which consist of money market accounts and savings accounts, increased $45.17 million while time deposits decreased $97.59 million during 2010.

Average total deposits increased to $1.64 billion during 2010 as compared to $1.60 billion during 2009. Average interest bearing demand deposits increased $46.47 million during 2010 to $252.47 million. Average non-interest bearing demand deposits increased $6.48 million to $206.40 million and savings deposits increased $86.97 million to $421.18 million during 2010. Average time deposits decreased $103.07 million in 2010. In 2010, the average rate paid on interest bearing deposits was 1.39%, down 59 basis points from 1.98% in 2009. Throughout 2010, the Company decreased its higher-rate certificates of deposit and money market accounts.

Borrowings

The Company's borrowings consist primarily of overnight federal funds purchased from the FHLB and other sources, securities sold under agreements to repurchase, and term FHLB borrowings. This category of liabilities represents wholesale sources of funding and liquidity for the Company.

Short-term borrowings decreased on average $4.24 million for 2010 compared with the prior year as a result of decreasing funding needs and strong deposit inflows. There were no federal funds purchased at December 31, 2010 and 2009. Repurchase agreements were $140.89 million and $153.63 million at December 31, 2010 and 2009, respectively. Retail repurchase agreements are sold to customers as an alternative to available deposit products and commercial treasury accounts. At December 31, 2010 and 2009, wholesale repurchase agreements totaled $50.00 million. The weighted average rate of those long-term, wholesale repurchase agreements was 3.71% at December 31, 2010 and 2009, respectively. The underlying securities included in retail repurchase agreements remain under the Company's control during the effective period of the agreements.

Short-term borrowings include overnight federal funds and repurchase agreements. Balances and weighted average rates paid on short-term borrowings used in daily operations are summarized as follows:

	2010		2009		2008	
	Amount	Rate	Amount	Rate	Amount	Rate

(Dollars in Thousands)									
At year-end	$90,894	0.77	%	$103,634	1.22	%	$115,914	1.49	%
Average during the year	97,532	1.02	%	101,775	1.35	%	159,101	2.13	%
Maximum month-end balance	108,643			106,407			232,110		

At December 31, 2010, FHLB borrowings included $175.00 million in convertible and callable advances. The weighted average interest rate of all FHLB advances was 2.39% and 2.41% at December 31, 2010 and 2009, respectively. $50.00 million of the advances are hedged by an interest rate swap to achieve a fixed rate of 4.34%. After considering the effect of the interest rate swap, the weighted average interest rate of all FHLB advances was 3.63% at December 31, 2010. At December 31, 2010, the FHLB advances had maturities between six and eleven years.

Also included in other indebtedness is $15.46 million of junior subordinated debentures issued by the Company in October 2003 through FCBI Capital Trust, an unconsolidated trust subsidiary, with an interest rate of three-month LIBOR plus 2.95%. The debentures mature in October 2033 and are currently callable at the option of the Company.

Stockholders' Equity

Total stockholders' equity increased $17.61 million, or 6.98%, from $252.27 million at December 31, 2009, to $269.88 million at December 31, 2010. The increase in stockholders' equity was primarily the result of net income of $21.85 million for the year ended December 31, 2010, which was partially offset by $7.12 million of dividends paid to common shareholders, and decrease in treasury stock of $3.15 million due to the Company contributing treasury stock as its matching contribution to the 401(k) plan during 2010.

Risk-Based Capital

Risk-based capital guidelines and the leverage ratio measure capital adequacy of banking institutions. At December 31, 2010, the Company's Tier I risk-based capital ratio was 14.07% compared with 12.56% in 2009. The Company's total risk-based capital-to-asset ratio was 15.33% at December 31, 2010, compared with 13.81% at December 31, 2009. Both of these ratios are well above the current minimum level of 8% prescribed for bank holding companies by the Federal Reserve Board. The leverage ratio is the measurement of total tangible equity to total assets. The Company's leverage ratio at December 31, 2010, was 9.44% versus 8.51% at December 31, 2009, both of which are well above the minimum levels prescribed by the Federal Reserve Board.

The OCC has issued an Individual Minimum Capital Ratio directive to the Bank which requires it to maintain a total risk-based capital ratio of 11.50%, a Tier 1 risk-based capital ratio of 10.00%, and a Tier 1 leverage ratio of 7.50%. The Bank's total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios were 14.18%, 12.92%, and 8.66%, respectively, at December 31, 2010. See Note 14 – Regulatory Capital Requirements and Restrictions in the Notes to Consolidated Financial Statements in Item 8 hereof.

Liquidity and Capital Resources

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

Total liquidity of $586.41 million at December 31, 2010, is comprised of the following: unencumbered cash on hand and deposits with other financial institutions of $111.12 million; unpledged available-for-sale securities of $177.39 million; held-to-maturity securities due within one year of $1.07 million; FHLB credit availability of $202.28 million; and federal funds lines availability of $94.55 million.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally used to pay down borrowings. On a longer-term basis, the Company maintains a strategy of investing in securities, mortgage-backed obligations and loans with varying maturities. The Company uses these funds to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, fund loan commitments and maintain a portfolio of securities.

The Company also maintains policies and procedures regarding liquidity contingency planning. The procedures call for liquidity monitoring through trending and ratio analysis, as well as forecasting budgeted and stressed scenarios. The procedures provide guidance for potential action to be taken when certain liquidity thresholds are met.

Since the Company is a holding company and does not conduct significant operations, its primary sources of liquidity are dividends upstreamed from the Bank and borrowings from outside sources. Banking regulations limit the amount of dividends that may be paid by the Bank. See Note 14 – Regulatory Capital Requirements and Restrictions of the Notes to Consolidated Financial Statements included in Item 8 hereof regarding such dividends. At December 31, 2010, the Company had liquid assets, including cash and investment securities, totaling $21.37 million.

At December 31, 2010, approved loan commitments outstanding amounted to $209.98 million and certificates of deposit scheduled to mature in one year or less totaled $463.53 million. Management believes that the Company has adequate resources to fund outstanding commitments and could either adjust rates on certificates of deposit in order to retain or attract deposits in changing interest rate environments or replace such deposits with advances from the FHLB or other funds providers if it proved to be cost effective to do so.

The following table presents contractual cash obligations as of December 31, 2010.

	Total Payments Due by Period				
	Total	Less than One year	One to Three Years	Three to Five Years	More than Five Years
(Amounts in Thousands)					
Deposits without a stated maturity (1)	$894,118	$894,118	$-	$-	$-
Overnight security repurchase agreements	77,654	77,654	-	-	-
Certificates of deposit (2)(3)	752,453	473,410	139,914	137,818	1,311
Term security repurchase agreements	74,908	8,784	10,540	4,013	51,571
FHLB advances (2) (3)	201,519	4,210	8,360	8,360	180,589
Trust preferred indebtedness	27,882	807	1,177	1,153	24,745
Leases	4,780	964	1,522	716	1,578
Other commitments	903	903	-	-	-
Total	$2,034,217	$1,460,850	$161,513	$152,060	$259,794

(1) Excludes interest.
(2) Includes interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon interest rates in effect at December 31, 2010. The interest to be paid on variable rate obligations is affected by changes in market interest rates, which materially affect the contractual obligation amounts to be paid.
(3) Excludes carrying value adjustments such as unamortized premiums or discounts.

The following table presents detailed information regarding the Company's off-balance sheet arrangements at December 31, 2010.

	Amount of Commitment Expiration Per Period				
	Total	Less than One Year (1)	One to Three Years	Three to Five Years	More than Five Years
(Amounts in Thousands)					
Commitments to extend credit					
Construction — commercial	$24,915	$ 19,562	$850	$2,987	$1,516
Land development	3,986	16	3	3,967	-
Commercial and industrial	31,298	23,038	7,388	841	31
Multi-family residential	342	170	10	162	-
Non-farm, non-residential	10,972	6,335	1,523	2,524	590
Agricultural	428	373	55	-	-
Farmland	1,575	1,308	171	96	-
Home equity lines	78,862	4,390	5,953	16,589	51,930
Single family residential mortgage	2,456	642	1,130	335	349
Owner-occupied construction	5,348	3,723	6	85	1,534
Consumer loans	49,801	49,656	97	35	13
Total unused commitments	$209,983	$ 109,213	$17,186	$27,621	$55,963
Financial letters of credit	$358	$ 348	$-	$-	$10
Performance letters of credit	3,684	3,309	31	280	64
Total letters of credit	$4,042	$ 3,657	$31	$280	$74

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

The Company has a pay fixed and receive variable interest rate swap that effectively fixes $50.00 million of FHLB borrowings at 4.34% for a period of five years, which ended January 6, 2011. The derivative transaction is effective and performing as originally expected.

Wealth Management Services

As part of its community banking services, the Company offers trust management and estate administration services through its Trust and Financial Services Division ("Trust Division"). The Trust Division reported a total market value of assets under management of $426 million and $411 million at December 31, 2010 and 2009, respectively. The Trust Division manages inter vivos 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 Company also offers investment advisory services through the Bank's wholly-owned subsidiary, IPC, which reported assets under management of $433 million and $414 million at December 31, 2010 and 2009, respectively. Revenues consist primarily of commissions on assets under management and investment advisory fees.

Insurance Services

The Company offers insurance services through its subsidiary GreenPoint. Revenues are primarily derived from commissions paid on policies sold. Commission revenue was $6.73 million for 2010 compared to $6.99 million for 2009. See Note 19 – Segment Information of the Notes to the Consolidated Financial Statements include in Item 8 hereof.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company's profitability is dependent to a large extent upon its net interest income, 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 Company, 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 Company 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 net interest income given the current interest rate environment.

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

In order to mitigate the effect of changes in the general level of interest rates, the Company manages repricing opportunities and thus, its interest rate sensitivity. The Company 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 net interest income are performed using financial models that project net interest income 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, management's estimate of yields to be attained in those future rate environments, and rates that will be paid on various deposit instruments and borrowings. Specific strategies for management of IRR have included shortening the amortized maturity of new fixed rate loans, increasing the volume of adjustable rate loans to reduce the repricing term of the Bank's interest-earning assets, and monitoring the term structure of liabilities to maintain a balanced mix of maturity and repricing 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 in a relatively neutral position with respect to sensitivity to interest rate risk.

The Company has established policy limits for tolerance of interest rate risk based on the income simulation compared with forecasted results. In addition, the policy addresses exposure limits to changes in the economic value of equity according to predefined policy guidelines. The most recent simulation indicates that current exposure to interest rate risk is within the Company's defined policy limits.

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income and the economic value of equity as of December 31, 2010 and 2009. The model simulates plus 300 and minus 100 basis point changes from the base case rate simulation. This table, which illustrates the prospective effects of hypothetical interest rate changes, is based upon numerous assumptions including relative and estimated levels of key interest rates over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and 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 and external variables. As of December 31, 2010, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points as not realistic and not meaningful. In the downward rate shocks presented, benchmark interest rates are dropped with floors near 0%.

Rate Sensitivity Analysis

(Dollars in Thousands) Increase (Decrease) in Interest Rates (Basis Points)	December 31, 2010 Simulation: Change in Net Interest Income	Percent Change	Change in Market Value of Equity	Percent Change
300	$ 932	1.2	$ (10,634)	(3.6)
200	121	0.2	(1,530)	(0.5)
100	329	0.4	4,734	1.6
(100)	(105)	(0.1)	(21,503)	(7.3)

(Dollars in Thousands) Increase (Decrease) in Interest Rates (Basis Points)	December 31, 2009 Simulation: Change in Net Interest Income	Percent Change	Change in Market Value of Equity	Percent Change
200	$ (1,405)	(1.9)	$ (18,634)	(6.9)
100	(866)	(1.2)	(7,715)	(2.9)
(100)	2,117	2.9	16,087	5.9

ITEM 8. Financial Statements and Supplementary Data.

Consolidated Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$28,816	$36,265
Federal funds sold	81,526	61,376
Interest-bearing balances with banks	1,847	3,700
Total cash and cash equivalents	112,189	101,341
Securities available for sale	480,064	486,057
Securities held to maturity	4,637	7,454
Loans held for sale	4,694	11,576
Loans held for investment, net of unearned income	1,386,206	1,393,931
Less allowance for loan losses	26,482	24,277
Net loans held for investment	1,359,724	1,369,654
Premises and equipment, net	56,244	56,946
Other real estate owned	4,910	4,578
Interest receivable	7,675	8,610
Goodwill	84,914	84,648
Other intangible assets	5,725	6,413
Other assets	123,462	136,006
Total assets	$2,244,238	$2,273,283
Liabilities		
Deposits:		
Non-interest bearing	$205,151	$208,244
Interest bearing	1,415,804	1,437,716
Total deposits	1,620,955	1,645,960
Interest, taxes and other liabilities	21,318	22,498
Securities sold under agreements to repurchase	140,894	153,634
FHLB borrowings and other indebtedness	191,193	198,924
Total liabilities	1,974,360	2,021,016
Stockholders' Equity		
Preferred stock, par value undesignated; 1,000,000 shares authorized; no shares outstanding at December 31, 2010 or December 31, 2009	-	-
Common stock, $1 par value; shares authorized: 50,000,000; shares issued: 18,082,822 at 2010 and 18,082,822 at 2009; shares outstanding: 17,866,335 at 2010 and 17,765,164 at 2009	18,083	18,083
Additional paid-in capital	189,239	190,967
Retained earnings	81,486	66,760
Treasury stock, at cost	(6,740)	(9,891)
Accumulated other comprehensive loss	(12,190)	(13,652)
Total stockholders' equity	269,878	252,267
Total liabilities and stockholders' equity	$2,244,238	$2,273,283

See Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
(Dollars in Thousands, Except Share and Per Share Data)	2010	2009	2008
Interest Income			
Interest and fees on loans	$84,741	$82,704	$80,224
Interest on securities-taxable	12,704	19,093	22,714
Interest on securities-nontaxable	5,943	5,972	7,521
Interest on federal funds sold and deposits in banks	194	165	306
Total interest income	103,582	107,934	110,765
Interest Expense			
Interest on deposits	19,887	27,796	29,792
Interest on short-term borrowings	2,883	3,297	5,252
Interest on long-term debt	6,955	7,589	9,886
Total interest expense	29,725	38,682	44,930
Net Interest Income	73,857	69,252	65,835
Provision for loan losses	14,757	15,801	9,226
Net interest income after provision for loan losses	59,100	53,451	56,609
Noninterest Income			
Wealth management income	3,828	4,147	4,100
Service charges on deposit accounts	13,128	13,892	14,067
Other service charges, commissions and fees	5,074	4,715	4,248
Insurance commissions	6,727	6,988	4,988
Total impairment losses on securities	(185)	(88,435)	(29,923)
Portion of loss recognized in other comprehensive income	-	9,572	-
Net impairment losses recognized in earnings	(185)	(78,863)	(29,923)
Net gains (losses) on sale of securities	8,273	(11,673)	1,899
Gain on acquisition	-	4,493	-
Other operating income	3,663	2,624	2,995
Total noninterest income	40,508	(53,677)	2,374
Noninterest Expense			
Salaries and employee benefits	34,528	31,385	29,876
Occupancy expense of bank premises	6,438	5,889	5,102
Furniture and equipment expense	3,713	3,746	3,740
Amortization of intangible assets	1,032	1,028	689
Prepayment penalties on FHLB advances	-	88	1,647
FDIC premiums and assessments	2,856	4,262	202
Merger related expenses	-	1,726	-
Goodwill impairment	1,039	-	-
Other operating expense	20,337	18,500	19,260
Total noninterest expense	69,943	66,624	60,516
Income (loss) before income taxes	29,665	(66,850)	(1,533)
Income tax expense (benefit)	7,818	(28,154)	(3,487)
Net income (loss)	21,847	(38,696)	1,954
Dividends on preferred stock	-	2,160	255
Net income (loss) available to common shareholders	$21,847	$(40,856)	$1,699
Basic earnings (loss) per common share	$1.23	$(2.75)	$0.15

Diluted earnings (loss) per common share	$1.23	$(2.75)	$0.15
Dividends declared per common share	$0.40	$0.30	$1.12
Weighted average basic shares outstanding	17,802,009	14,868,547	11,058,076
Weighted average diluted shares outstanding	17,822,944	14,868,547	11,134,025

See Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)	Years Ended December 31, 2010	2009	2008
Cash flows from operating activities			
Net income (loss)	$21,847	$(38,696)	$1,954
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	14,757	15,801	9,226
Depreciation and amortization of premises and equipment	4,091	4,028	3,885
Intangible amortization	1,032	1,028	689
Goodwill impairment	1,039	-	-
Net investment amortization and accretion	1,112	1,234	(161)
(Gains) losses on the sale of investments and other assets	(8,141)	11,599	(1,839)
Net gain on acquisitions	-	(4,493)	-
Mortgage loans originated for sale	(49,762)	(35,249)	(32,704)
Proceeds from sale of mortgage loans	57,479	27,464	32,672
Gain on sale of loans	(835)	(83)	(181)
Equity-based compensation expense	58	153	260
Deferred income tax expense (benefit)	13,008	(18,866)	(13,324)
Decrease in interest receivable	935	2,071	3,071
Excess tax benefit from stock-based compensation	(9)	(2)	(85)
Prepayment penalty	-	88	1,647
Contribution of treasury stock to 401(k) plan	1,044	1,414	1,208
FDIC prepayment	-	(10,885)	-
Net impairment losses recognized in earnings	185	78,863	29,923
Net changes in other assets and liabilities	(2,317)	(20,338)	(2,651)
Net cash provided by operating activities	55,523	15,131	33,590
Cash flows from investing activities			
Proceeds from sales of securities available for sale	170,752	167,071	128,888
Proceeds from maturities and calls of securities available for sale	90,633	77,178	87,144
Proceeds from maturities and calls of held to maturity securities	2,825	1,238	3,417
Purchase of securities available for sale	(248,101)	(218,961)	(171,446)
Net (increase) decrease in loans made to customers	(5,437)	18,902	58,473
Net redemption of FHLB stock	1,459	351	4,013
Cash (used in) provided by divestitures and acquisitions, net	(667)	21,749	(4,661)
Purchase of premises and equipment	(3,743)	(4,380)	(6,040)
Proceeds from sale of equipment	163	327	21
Net cash provided by investing activities	7,884	63,475	99,809
Cash flows from financing activities			
Net increase (decrease) in demand and savings deposits	72,586	71,436	(52,079)
Net (decrease) increase in time deposits	(97,591)	(71,931)	24,788
Net decrease in FHLB and other borrowings	(7,731)	(25,130)	(76,039)
FHLB debt prepayment fees	-	(88)	(1,647)
Net decrease in federal funds purchased	-	-	(18,500)
Net decrease in securities sold under agreement to repurchase	(12,740)	(12,280)	(41,513)

Redemption of preferred stock	-	(41,500)	-
Net proceeds from the issuance of common stock	-	61,668	-
Net proceeds from the issuance of preferred stock	-	-	41,409
Proceeds from the exercise of stock options	29	21	464
Excess tax benefit from stock-based compensation	9	2	85
Acquisition of treasury stock	-	(167)	(4,222)
Preferred dividends paid	-	(1,116)	-
Common dividends paid	(7,121)	(4,619)	(12,452)
Net cash used in financing activities	(52,559)	(23,704)	(139,706)
Net increase (decrease) in cash and cash equivalents	10,848	54,902	(6,307)
Cash and cash equivalents at beginning of year	101,341	46,439	52,746
Cash and cash equivalents at end of year	$112,189	$101,341	$46,439
Supplemental information — Noncash items			
Transfers of loans to other real estate	$6,793	$6,490	$2,653
Cumulative effect adjustment, net of tax	$-	$6,131	$-

(See Note 1 for detail of income taxes and interest paid and Note 2 for supplemental information regarding detail of cash paid in acquisitions.)

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance January 1, 2008	$ -	$ 11,499	$ 108,825	$ 117,670	$ (13,613)	$ (7,283)	$ 217,098
Comprehensive loss:							
Net income	$ -	$ -	$ -	$ 1,954	$ -	$ -	$ 1,954
Other comprehensive loss — see note 17	-	-	-	-	-	(45,234)	(45,234)
Comprehensive loss	-	-	-	1,954	-	(45,234)	(43,280)
Cumulative effect of change in accounting principle				(813)			(813)
Preferred stock issuance, net	40,395	-	(91)	-	-	-	40,304
Common stock warrant issuance	-	-	1,105	-	-	-	1,105
Preferred dividend, net	24	-	-	(255)	-	-	(231)
Common dividends declared — $1.12 per share	-	-	-	(12,452)	-	-	(12,452)
Purchase of 132,100 treasury shares at $31.96 per share	-	-	-	-	(4,222)	-	(4,222)
Acquisition of Coddle Creek — 552,216 shares	-	552	18,588	-	-	-	19,140
Acquisition of GreenPoint Insurance Group — 7,728 shares	-	-	22	-	245	-	267
Acquisition of Investment Planning Consultants — 8,361 shares	-	-	(26)	-	266	-	240
Contribution of treasury stock to 401(k) plan — 37,775 shares	-	-	8	-	1,200	-	1,208
Equity-based compensation	-	-	244	-	16	-	260
Tax benefit from exercise of stock options	-	-	127	-	-	-	127
Common stock options exercised — 22,323 shares	-	-	(276)	-	740	-	464
	$ 40,419	$ 12,051	$ 128,526	$ 106,104	$ (15,368)	$ (52,517)	$ 219,215

Balance December 31, 2008							
Cumulative effect of change in accounting principle	$ -	$ -	$ -	$ 6,131	$ -	$ (6,131)	$ -
Comprehensive income:							
Net loss	-	-	-	(38,696)	-	-	(38,696)
Other comprehensive income — see note 17	-	-	-	-	-	44,996	44,996
Comprehensive income	-	-	-	(32,565)	-	38,865	6,300
Preferred dividend, net	1,081	-	(37)	(2,160)	-	-	(1,116)
Common dividends declared — $0.30 per share	-	-	-	(4,619)	-	-	(4,619)
Redemption of preferred stock	(41,500)	-	-	-	-	-	(41,500)
Purchase of 13,500 treasury shares at $12.29 per share	-	-	-	-	(167)	-	(167)
Acquisition of GreenPoint Insurance Group — 22,008 shares	-	-	(404)	-	685	-	281
Acquisition of Investment Planning Consultants — 43,054 shares	-	-	(851)	-	1,341	-	490
Acquisition of TriStone Community Bank — 741,588 shares	-	742	9,385	-	-	-	10,127
Equity-based compensation	-	-	115	-	38	-	153
Common stock issuance, net — 5,290,000 shares	-	5,290	56,378	-	-	-	61,668
Contribution of treasury stock to 401(k) plan — 111,365 shares	-	-	(2,103)	-	3,517	-	1,414
Common stock options exercised — 2,000 shares	-	-	(42)	-	63	-	21
Balance December 31, 2009	$ -	$ 18,083	$ 190,967	$ 66,760	$ (9,891)	$ (13,652)	$ 252,267
Comprehensive income:							
Net income	-	-	-	21,847	-	-	21,847
Other comprehensive income — see note 17	-	-	-	-	-	1,462	1,462
Comprehensive income	-	-	-	21,847	-	1,462	23,309
Common dividends declared — $0.40 per share	-	-	-	(7,121)	-	-	(7,121)

Acquisition of GreenPoint Insurance Group — 22,814 shares	-	-	(419)	-	711	-	292
Equity-based compensation	-	-	33	-	25	-	58
Contribution of treasury stock to 401(k) plan — 74,926 shares	-	-	(1,289)	-	2,333	-	1,044
Common stock options exercised — 2,631 shares	-	-	(53)	-	82	-	29
Balance December 31, 2010	$ -	$ 18,083	$ 189,239	$ 81,486	$ (6,740)	$ (12,190)	$ 269,878

See Notes to Consolidated Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of First Community Bancshares, Inc. and subsidiaries ("First Community" or the "Company") conform to accounting principles generally accepted in the United States ("U.S. GAAP") 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.

Accounting Standards Codification

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force guidance and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Principles of Consolidation

The consolidated financial statements of First Community include the accounts of all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Effective January 1, 2008, the Company operates within two business segments, community banking and insurance services.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, 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 reported amounts of revenues and expenses during the reporting period. Financial statement items requiring the significant use of estimates and assumptions include, but are not limited to, fair values of investment securities, fair value adjustment of acquired businesses and the establishment of the allowance for loan losses. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

	2010	2009	2008

(Amounts in Thousands)			
Interest	$ 30,609	$ 39,871	$ 46,381
Income Taxes	5,300	9,318	8,777

Pursuant to agreements with the Federal Reserve Bank of Richmond, the Company maintains a cash balance of $250 thousand in lieu of charges for check clearing and other services. The Company maintained a cash deposit of $1.07 million at December 31, 2010, with a counterparty to collateralize an interest rate swap.

Investment Securities

Securities to be held for indefinite periods of time, including securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as available-for-sale and are recorded at estimated fair value. Unrealized appreciation or depreciation in fair value above or below amortized cost is included in stockholders' equity, net of income taxes, and is entitled "Other Comprehensive Income (Loss)." Premiums and discounts are amortized or accreted to income over the life of the security. Gain or loss on sale is based on the specific identification method.

FIRST COMMUNITY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Investments in debt securities that management has determined it does not intend to sell and has asserted that it is not more likely than not that it will have to sell are carried at amortized cost. Premiums and discounts are amortized to expense and accreted to income over the lives of the securities. Gain or loss on the call or maturity of investment securities, if any, is recorded based on the specific identification method. Investments that management has determined it does intend to sell and has asserted that it is more likely than not that it will have to sell are carried at the lower of amortized cost or market value.

The Company performs an extensive review of the investment securities portfolio quarterly to determine the cause of declines in the fair value of each security within each segment of the portfolio. The Company uses inputs provided by an independent third party to determine the fair values of its investment securities portfolio. Inputs provided by the third party are reviewed by management. Evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as whether the Company determines it has the intent to sell the security or whether it is more likely than not it will be required to sell the security, recoverability of the invested amounts over the Company's intended holding period, severity in pricing decline and receipt of amounts contractually due, for example, are applied in determining whether a security is other-than-temporarily impaired. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In the instance of a debt security which is determined to be other-than-temporarily impaired, the Company determines the amount of the impairment due to credit and the amount due to other factors. The amount of impairment related to credit is recognized in the Consolidated Statements of Income and the remainder of the impairment is recognized in other comprehensive income.

Loans Held for Sale

Loans held for sale primarily consist of one-to-four family residential loans originated for sale in the secondary market and are carried at the lower of cost or estimated fair value determined on an aggregate basis. The long-term, fixed rate loans are sold to investors on a best efforts basis such that the Company does not absorb the interest rate risk involved in the loans. The fair value of loans held for sale is determined by reference to quoted prices for loans with similar coupon rates and terms.

The Company enters into rate-lock commitments it makes to customers with the intention to sell the loan in the secondary market. The derivatives arising from the rate-lock commitments are recorded at fair value in other assets and liabilities and changes in that fair value are included in other income. The fair value of the rate-lock commitment derivatives are determined by reference to quoted prices for loans with similar coupon rates and terms. Gains and losses on the sale of those loans are included in other income.

Loans Held for Investment

Loans held for investment are carried at the principal amount outstanding less any write-downs which may be necessary to reduce individual loans to net realizable value. Individually significant loans are evaluated for impairment when evidence of impairment exists. Impairment allowances are recorded through specific additions to the allowance for loan losses. Loans are considered past due when principal or interest becomes contractually delinquent by 30 days or more. Consumer loans are charged off against the allowance for loan losses when the loan becomes 120 days past due (180 days if secured by residential real estate). All other loans are charged off against the allowance for loan losses after collection attempts have been exhausted, which generally is within 120 days. Recoveries of loans charged off are credited to the allowance for loan losses in the period received.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable losses inherent in the portfolio, and is based on management's evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. The Company consistently applies a review process to periodically evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses.

The Company determines the allowance for loan losses by making specific allocations to impaired loans that exhibit inherent weaknesses and various credit risk factors, and general allocations to commercial loans, consumer residential real estate, and consumer loans are developed giving weight to risk ratings, historical loss trends and management's judgment concerning those trends and other relevant factors. The general allocations are determined through a methodology that utilizes a rolling five year average loss history that is adjusted for current qualitative or environmental factors that management deem likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience. These factors may include, but are not limited to, actual versus estimated losses, regional and national economic conditions, including unemployment trends, business segment and portfolio concentrations, industry competition, interest rate trends, and the impact of government regulations. The foregoing analysis is performed by management to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas.

This risk management evaluation is applied at both the portfolio level for non-impaired loans and the individual loan level for impaired commercial loans while the level of consumer and residential mortgage loan allowance is determined primarily on a total portfolio level based on a review of historical loss percentages and other qualitative factors including concentrations, industry specific factors and economic conditions. The commercial portfolio requires more specific analysis of individually significant loans and the borrower's underlying cash flow, business conditions, capacity for debt repayment and the valuation of secondary sources of payment, such as collateral. This analysis may result in specifically identified weaknesses and corresponding specific impairment allowances. While allocations are made to specific loans and classifications within the various categories of loans, the allowance for loan losses is available for all loan losses.

The use of various estimates and judgments in the Company's ongoing evaluation of the required level of allowance can significantly impact the Company's results of operations and financial condition and may result in either greater provisions against earnings to increase the allowance or reduced provisions based upon management's current view of portfolio and economic conditions and the application of revised estimates and assumptions. Differences between actual loan loss experience and estimates are reflected through adjustments either increasing or decreasing the allowance based upon current measurement criteria.

Long-term Investments

Certain long-term equity investments representing less than 20% ownership are accounted for under the cost method, are carried at cost, and are included in other assets. At December 31, 2010, these equity investments totaled $1.86 million. These investments in operating companies represent required long-term investments in insurance, investment and service company affiliates or consortiums which serve as vehicles for the delivery of various support services. In accordance with the cost method, dividends received are recorded as current period revenues and there is no recognition of the Company's proportionate share of net operating income or loss. The Company has determined that fair value measurement is not practical, and further, nothing has come to the attention of the Company that would indicate impairment of any of these investments.

As a condition to membership in the FHLB system, the Company is required to subscribe to a minimum level of stock in the FHLB of Atlanta ("FHLBA"). The Company feels this ownership position provides access to relatively inexpensive wholesale and overnight funding. The Company accounts for FHLBA and Federal Reserve Bank stock as a long-term investment in other assets. At December 31, 2010 and 2009, the Company owned $12.24 million and $13.70 million in FHLBA stock, respectively, which is classified as other assets. The Company's policy is to review for impairment at each reporting period. During the year ended December 31, 2010, FHLBA repurchased excess activity-based stock from the Company and paid quarterly dividends. At December 31, 2010, FHLBA was in compliance with all of its regulatory capital requirements. Based on the Company's review, it believes that as of December 31, 2010 and 2009, its FHLBA stock was not impaired.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are computed on the straight-line method over estimated useful lives. Useful lives range from 5 to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and 10 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 20 years, and leasehold improvements are amortized over the lesser of the useful life or the term of the lease plus the first optional renewal period, when renewal is reasonably assured. Maintenance and repairs are charged to current operations while improvements that extend the economic useful life of the underlying asset are capitalized. Disposition gains and losses are reflected in current operations.

The Company leases various properties within its branch network. Leases generally have initial terms of up to 20 years and most contain options to renew with reasonable increases in rent. All leases are accounted for as operating leases.

Other Real Estate Owned

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

Goodwill and Other Intangible Assets

The excess of the cost of an acquired company over the fair value of the net assets and identified intangibles acquired is recorded as goodwill. The net carrying amount of goodwill was $84.91 million and $84.65 million at December 31, 2010 and 2009, respectively. A portion of the purchase price in certain transactions has been allocated to values associated with the future earnings potential of acquired deposits and is being amortized over the estimated lives of the deposits, ranging from one to eight years while the weighted average remaining life of these core deposits is 6.44 years. As of December 31, 2010 and 2009, the balance of core deposit intangibles was $2.85 million and $3.50 million, respectively, net of corresponding accumulated amortization was $5.09 million and $4.44 million, respectively. The acquisition of GreenPoint, and its continued acquisitions, added $1.31 million of goodwill for the period ended December 31, 2010. The annual amortization expense of all intangible assets for 2011 and the succeeding four years are $1.05 million, $855 thousand, $811 thousand, $758 thousand, and $758 thousand, respectively.

FIRST COMMUNITY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company reviews and tests goodwill for potential impairment on an annual basis in October. Goodwill is tested for impairment by comparing the fair value of each segment to its book value (step 1), including goodwill. If the fair value of the segment is greater than its book value, no goodwill impairment exists. However, if the book value of the segment is greater than its determined fair value, goodwill impairment may exist and further testing is required to determine the amount, if any, of the actual impairment loss (step 2). The step 1 test utilizes a combination of two methods to determine the fair value of the reporting units. For both segments, a discounted cash flow model uses estimates in the form of growth and attrition rates of return and discount rates to project cash flows from operations of the business segment, the results of which are weighted 70%. For the banking segment, a market multiple model utilizes price to net income and price to tangible book value inputs for closed transactions and for certain common sized institutions and the results are weighted 30%. For the insurance segment, the market multiple model primarily utilizes price to sales for closed transactions and certain similar industry public companies and the results are weighted 30%. The end results for both segments are then compared to the respective book values to consider if impairment is evident. To determine the overall reasonableness of the segment computations, the combined computed fair value is then compared to the overall market capitalization of the consolidated Company to determine the level of implied control premium. The analysis performed for 2010 indicated an impairment of goodwill at the insurance agency subsidiary of $1.04 million.

The progression of the Company’s goodwill and intangible assets for continuing operations for the three years ended December 31, 2010, is detailed in the following table:

(Amounts in Thousands)	Goodwill	Other Intangible Assets
Balance at December 31, 2007	$66,310	$3,746
Acquisitions	15,990	3,362
Other Adjustments	892	-
Amortization	-	(689)
Balance at December 31, 2008	$83,192	$6,419
Acquisitions and dispositions, net	1,456	1,022
Amortization	-	(1,028)
Balance at December 31, 2009	$84,648	$6,413
Acquisitions and dispositions, net	1,305	344
Amortization	-	(1,032)
Impairment	(1,039)	-
Balance at December 31, 2010	$84,914	$5,725

Other Assets

In addition to deferred tax assets, other assets included $42.24 million and $40.97 million in the cash surrender value of life insurance policies owned by the Company of December 31, 2010 and 2009, respectively, and $12.24 million and $13.70 million in FHLBA stock at December 31, 2010 and 2009, respectively.

In connection with the bank-owned life insurance, the Company has also entered into Life Insurance Endorsement Method Split Dollar Agreements with certain of the individuals whose lives are insured. Under these agreements, the Company shares 80% of death benefits (after recovery of cash surrender value) with the designated beneficiaries of the plan participants under life insurance contracts. 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. Split Dollar Agreements totaled $1.19 million and $763 thousand at December 31, 2010 and 2009, respectively. Expenses associated with split dollar agreements were $72 thousand and $89 thousand in 2010 and 2009, respectively.

FIRST COMMUNITY BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions. Securities, generally U.S. government and federal agency securities, pledged as collateral under these arrangements cannot be sold or repledged by the secured party. The fair value of the collateral provided to a third party is continually monitored, and additional collateral is provided as appropriate.

Loan Interest Income Recognition

Accrual of interest on loans is based generally on the daily amount of principal outstanding. Loans are considered past due when either principal or interest payments are delinquent by 30 or more days. It is the Company's policy to discontinue the accrual of interest on loans based on the payment status and evaluation of the related collateral and the financial strength of the borrower. The accrual of interest income is normally discontinued when a loan becomes 90 days past due as to principal or interest. Management may elect to continue the accrual of interest when the loan is well secured and in process of collection. When interest accruals are discontinued, interest accrued and not collected in the current year is reversed from income and interest accrued and not collected from prior years is charged to the allowance for loan losses. Interest income realized on impaired loans is recognized upon receipt if the impaired loan is on a non-accrual basis. Accrual of interest on non-accrual loans may be resumed if the loan is brought current and follows a period of substantial performance, including six months of regular principal and interest payments. Accrual of interest on impaired loans is generally continued unless the loan becomes delinquent 90 days or more.

Loan Fee Income

Loan origination and underwriting fees are reduced by direct costs associated with loan processing, including salaries, review of legal documents and obtainment of appraisals. Net origination fees and costs are deferred and amortized over the life of the related loan. Loan commitment fees are deferred and amortized over the related commitment period. Net deferred loan fees were $1.15 million and $632 thousand at December 31, 2010 and 2009, respectively

Advertising Expenses

Advertising costs are generally expensed as incurred. Amounts recognized for the three years ended December 31, 2010, are detailed in Note 15 – Other Operating Expenses of the Notes to Consolidated Financial Statements included in Item 8 hereof.

Equity-Based Compensation