Farmers Capital Bank Corporation

Annual Report 2003

December 31, (In thousands, except per share data)	**2003**	2002	2001	2000	1999
Results of Operations					
Interest income	$ 58,413	$ 66,291	$ 77,039	$ 75,481	$ 69,034
Interest expense	19,883	25,746	34,357	32,536	27,184
Net interest income	38,530	40,545	42,682	42,945	41,850
Provision for loan losses	2,592	4,748	2,448	2,472	2,863
Net income	12,963	12,561	14,671	14,380	13,930
Per Share Data					
Net income–					
Basic	$ 1.93	$ 1.83	$ 2.10	$ 1.97	$ 1.86
Diluted	1.92	1.82	2.09	1.97	1.86
Cash dividends declared	1.29	1.25	1.21	1.17	1.13
Book value	18.83	18.52	17.89	17.49	16.82
Selected Ratios					
Percentage of net income to:					
Average shareholders' equity (ROE)	10.39%	10.04%	11.93%	11.61%	11.20%
Average total assets (ROA)	1.04	1.04	1.28	1.40	1.41
Percentage of dividends declared to net income	66.91	68.38	57.70	59.33	60.66
Percentage of average shareholders' equity to average total assets	9.98	10.37	10.75	12.06	12.58
Total shareholders' equity	$ 126,471	$ 125,773	$ 123,560	$ 125,461	$ 125,106
Total assets	1,318,565	1,275,602	1,183,530	1,204,752	1,039,787
Long-term debt	56,413	57,152	10,913	10,501	3,668
Weighted Average Shares Outstanding					
Basic	6,727	6,870	6,982	7,304	7,478
Diluted	6,770	6,910	7,025	7,307	7,478

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Shareholder Information

Directors

Pictured from left

W. Benjamin Crain
President of Fourth Street Tobacco Warehouse and Chairman of the Board of Directors of United Bank & Trust Co.

Dr. Doug Sutterlin
retired Dentist and Chairman of the Board of Directors of Farmers Bank & Capital Trust Co.

Gerald R. Hignite
President of Curneal & Hignite Insurance, Inc.

E. Bruce Dungan
Advisory Director, retired President and CEO of Farmers Capital Bank Corporation

Michael M. Sullivan
retired Senior Vice President of FCB Services, Inc.

G. Anthony Busseni
President and CEO of Farmers Capital Bank Corporation

Frank W. Sower, Jr.
Chairman, retired Appeals Officer, Internal Revenue Service

Charles T. Mitchell, CPA
Advisory Director, Consultant, Charles T. Mitchell Co., LLP, CPA

J. Barry Banker
President of Stewart Home School

Dr. John P. Stewart
Chairman Emeritus, retired Physician, Director of Stewart Home School

Shelley S. Sweeney
President of Swell Properties, Inc.

Robert Roach, Jr.
retired Teacher, Frankfort City Commissioner

Harold G. Mays
President of H.G. Mays Corporation, an asphalt paving firm

Dr. Donald Mullineaux
DuPont Endowed Chair in Banking and Financial Services in the Gatton College of Business and Economics, University of Kentucky

Lloyd C. Hillard, Jr.
President and CEO of First Citizens Bank

Officers

G. Anthony Busseni
President and CEO

Allison B. Gordon
Senior Vice President

C. Douglas Carpenter
Vice President, Secretary, and Chief Financial Officer

Linda L. Faulconer, SPHR
Vice President, Human Resources

Dawn M. Forbes, CPA
Vice President, Auditing

Anna Kaye Hall
Vice President, Finance

Mark A. Hampton, CPA
Vice President, Finance

Jean T. Harrod
Vice President, Legal Counsel

Janelda R. Mitchell
Vice President, Marketing

Keith Ballard
Assistant Vice President, Auditing

Todd Chadwell, CPA
Assistant Vice President, Auditing

Sue Coles
Assistant Vice President, Compliance

Teresa Tipton
Assistant Vice President, Human Resources

Farmers Capital Bank Corporation is pleased to report that we ended 2003 with net income of $12,963,000, which is 3.2% higher than year-end 2002 of $12,561,000. Considering the continued declines in the overall market interest rate environment, the resultant net income is encouraging. The Company experienced a significant decrease in net interest income due to interest rates earned on earning assets declining more rapidly than the interest rates paid on interest paying liabilities; many of the Company's funding sources, particularly deposits, have neared their repricing floors.

However, we were able to increase our quarterly dividend to our shareholders from $0.32 to $0.33 cents per share. Announced October 27, 2003, the increase was payable January 1, 2004 to shareholders of record at the close of business December 1, 2003. This is the second such increase in as many years. The current dividend pay out is reflective of a 3.8% annual return to shareholders on their investment (based on share price of $35.00). This is a very favorable rate of return in today's market and equates to an even higher after-tax yield due to recently adopted tax legislation, which reduced the taxes payable on corporate dividends.

Profit margins were squeezed in 2003 with interest rates remaining at levels not seen for many years. This adversely impacted our affiliates and their depositors as returns on deposits were negatively impacted. However, our community banks' management teams reaffirmed their aversion to chasing high cost deposits and low interest loans but instead looked to restructure their loan and deposit product offerings making them more attractive to both existing and potential customers. The concept of growth through multi-service banking relationships and not through one low cost loan or high yielding deposit continues to be the goal.

In our non-traditional financial venues, our correspondent banking division continues to grow and build relationships with community banks throughout Kentucky. The loans and deposits generated by correspondent banking have helped not only Farmers Bank and Trust Company of Georgetown, but the entire Company has improved their balance sheets and income statements due to the opportunities provided them through participation loans. More importantly, relationships with customers have been developed which will be a basis for continuing growth and profitability in the future.

Our leasing subsidiary, despite a weak economy and the reduction in the amount of business leasing opportunities, continues to make a significant impact on the profitability of Farmers Bank & Capital Trust Co., Frankfort. The development of Leasing One several years ago has enabled Farmers Bank to go beyond its existing markets with products and clientele not previously available to the Company.

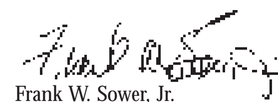
Our insurance subsidiary (Capital Insurance Group) continues to experience considerable growth by making entries into several new markets with the addition of new and enhanced products and services. In 2003, insurance activities made a significant positive impact on the income statement of the Company.

One enhancement we plan to enact in 2004 will be of a great benefit to our employees. Subject to the approval of our shareholders, we hope to implement an Employee Stock Purchase Plan for all Farmers Capital Bank Corporation employees. The plan, as proposed and submitted to shareholders, would provide employees the opportunity to purchase stock through a payroll deduction program at a rate less than market price and without any sales charges and fees. This opportunity will hopefully encourage our employees to increase their ownership of their Company.

We also ask our employees to "own" their Company in another way. In facing the ongoing competitive challenges, we encourage our employees to share ideas for improvement and growth. The key to anticipating what the future holds is preparing for the known and then adjusting for the unknown as it occurs. Each year, we hold planning meetings at each affiliate and at the corporate level, which is attended by the CEOs and senior officers. There we study the issues of the future and determine what actions will best exploit the opportunities that are presented. Also we evaluate our past performance and explore critical issues so that each affiliate understands the role it must play for our continued success. In pooling our talent and ideas we determine how to compete more effectively. Our former President and CEO, Charles S. Boyd said it best, "one of us is not as smart as all of us".

The new year will bring with it many opportunities and many challenges for our Company. Our goal of continued higher profitability is achievable but will require greater effort on the part of our employees to work not only harder, but smarter. We will pursue ways to grow our asset base and our market shares in existing markets as well as opportunities in new markets. We will pursue ways to safely and profitably expand financial services to our customers. A strong investment for our shareholders and superior service to our customers will result in our continued growth as a leader in regional banking.

G. Anthony Busseni


Frank W. Sower, Jr.

Farmers Bank &
Capital Trust Co.
Member FDIC

Directors

Dr. John D. Sutterlin, Chairman
C. Gary Adkinson
Clyde P. Baldwin
G. Anthony Busseni
Michael A. Fields
Don C. Giles
Allison B. Gordon
Rickey D. Harp
Robert W. Kellerman
David R. Lee
Marvin E. Strong, Jr.
William R. Sykes
John J. Hopkins
  Advisory Director
Frank W. Sower
  Advisory Director
Joseph C. Yagel, Jr.
  Advisory Director

Officers

Rickey D. Harp
  President and CEO

Bruce W. Brooks
  Executive Vice President,
  Chief Lending Officer and
  Environmental Officer

Fontaine Banks, III
  Senior Vice President, Investments

Gregory S. Burton
  Senior Vice President,
  Commercial Loans

L. Hobbs Cheek, CPA
  Senior Vice President,
  Chief Financial Officer

Jack Diamond
  Senior Vice President,
  Senior Trust Officer

Elizabeth D. Hardy
  Senior Vice President, Retail

Barbara Conway
  Vice President,
  Main Office Manager

Bruce G. Dungan
  Vice President, Retail,
  Security Officer,
  Compliance Officer,
  Bank Secrecy Act Officer

Nancy Gatewood
  Vice President,
  West Branch Manager

Richard Gobber
  Vice President, Retail

Sarah Gowins
  Vice President,
  Commercial Loans

Gail Mitchell
  Vice President, Franklin Square
  Branch Manager

Lydwina Napier
  Vice President,
  Commercial Loans

Jane Sweasy
  Vice President,
  East Branch Manager

Brenda Y. Rogers
  Executive Secretary

Patsy Briscoe
  Assistant Vice President,
  Loan Administration

Judy Isaacs
  Assistant Vice President,
  Bank Cards

Elizabeth Johns
  Assistant Vice President,
  Trust Officer

Joan Lee
  Assistant Vice President,
  Franklin Square Branch

Patricia Norris Peavler
  Assistant Vice President,
  Marketing

Jo Ann Reynolds
  Assistant Vice President,
  Investments

John Senter
  Assistant Vice President,
  Director of Human Resources

Deborah West
  Assistant Vice President,
  Assistant Manager, Main Office

Sally L. Bell
  Trust Officer

Karen DiRaimo
  Trust Officer

Kay Henninger
  Trust Officer

Leigh Ann Young
  Trust Officer

Margaret Colston
  Assistant Cashier, Retail Services

Jennifer Parrish
  Assistant Cashier,
  Retail Services

Julie Riggs
  Assistant Cashier,
  Retail Services

Mary Jo Verhey
  Assistant Cashier,
  Internet Banking

C. Ray Baldwin
  Property Management Director

Dorothy H. Switzer
  Director of
  Travel Programs

United Bank & Trust Co.
Member FDIC

Directors
W. Benjamin Crain, Chairman
Bruce W. Brooks
G. Anthony Busseni
Bobby G. Dotson
Michael L. Lawson
J. C. Moraja
Denny Nunnelley
Leighton Riddle
Shannon Greely Totty
Hampton H. Henton
Advisory Director
J. Stephen Hogg
Advisory Director
Howard B. Montague
Advisory Director
Ben F. Roach, MD
Advisory Director

Officers
J. C. Moraja
President and CEO
Paul A. Edwards
Executive Vice President
Linda C. Bosse
Vice President, Cashier
Joyce L. Eaves
Vice President
Bruce E. Marshall
Vice President
Rick Roberts
Vice President
John R. Thompson
Vice President
Spencer A. Wall
Vice President,
Midway Office Manager
Cornelia T. Ethington
Assistant Vice President
Rita Green
Assistant Vice President
Evie P. Knight
Assistant Vice President,
Security Officer
Leisa M. Newton
Assistant Vice President,
Compliance Officer
Carolyn F. Patterson
Assistant Vice President
Betty K. Poynter
Assistant Vice President,
Human Resources
Sherry T. Reynolds
Assistant Vice President
Phyllis B. McMahan
Assistant Cashier,
Locust Street Office Manager
Patricia R. Stokley
Executive Secretary

Lawrenceburg National Bank
Member FDIC

Directors
E. Glenn Birdwhistell, Chairman
William T. Bond
G. Anthony Busseni
Charles L. Cammack
C. Douglas Carpenter
Keith Freeman
Tom D. Isaac
James McGlone
Donald F. Peach
Oneita M. Perry
Paul Vaughn, Jr.

Officers
Charles L. Cammack
President and CEO
Paul Vaughn, Jr.
Executive Vice President,
Senior Trust Officer
Gail Gottshall
Executive Vice President
Bob Baughman
Vice President,
Harrodsburg Office Manager
Ben Birdwhistell
Vice President
Timothy A. Perry
Vice President, Compliance
Bonnie S. Childs
Assistant Vice President,
Marketing Representative
Clark Gregory
Assistant Vice President
Linda B. Hahn
Assistant Vice President
Barbara Markwell
Assistant Vice President, Cashier
Warren R. Leet
Assistant Vice President
Chris Thompson
West Park Office Manager,
Loan Officer
Libby Goodlett
Accounting Officer
Chandra Ennis
Assistant West Park
Office Manager
Teresa Higginbotham
Assistant Harrodsburg
Office Manager
Robin Miller
Operations Officer

First Citizens Bank
Member FDIC

Directors

James E. Bondurant, Chairman
R. Terry Bennett
G. Anthony Busseni
Dan Ray Clagett, DMD
Patricia V. Durbin
G. Jesse Flynn
William Godfrey, MD
Gerald R. Hignite
Lloyd C. Hillard, Jr.
Ray Mackey
Janelda R. Mitchell
Virgil T. Price, DMD
George Roederer

Officers

Lloyd C. Hillard, Jr.
President and CEO

Scott T. Conway
Senior Vice President,
Senior Loan Administrator

Marilyn B. Ford
Senior Vice President,
Cashier and Bank Secrecy Officer

Patricia J. Paris
Senior Vice President, Controller

David P. Tackett
Senior Vice President,
Trust Investment Center Director

Richard N. Clements
Vice President,
Bullitt County Office Manager

Pamela deRoche
Vice President,
Radcliff Office Manager

David E. Hunt
Vice President,
Commercial Loan Officer

Marquetta L. Lively
Vice President, Loan Officer

Mary Lou Mobley
Vice President, CRA Officer and
Compliance Officer

Linda Pepper
Assistant Vice President,
Director of Human Resources and
Director of Marketing

Brenda Fullerton
Assistant Vice President,
Members First Coordinator

Jeffrey S. Pendleton
Assistant Vice President,
Allotment Department

Ronald G. Penwell
Assistant Vice President,
Mulberry Office Manager

Mary P. Edlin
Assistant Cashier,
Bookkeeping Supervisor

Connie Kersey
Assistant Cashier,
Operations Officer

Debbie Roberts
Assistant Manager,
Bullitt County Office,
Operations Officer

Leda Kay Pack
Assistant Trust Officer

Farmers Bank and Trust Company
Member FDIC

Directors

Cecil D. Bell, Jr., Chairman
G. Anthony Busseni
Allison B. Gordon
Frank R. Hamilton, Jr.
Vivian M. House
Robert Sharon McMillin
Joseph C. Murphy
Gervis C. Showalter
Kenneth M. Sturgill
Glenn M. Williams
Rollie D. Graves
  Director Emeritus
Dr. Horace T. Hambrick
  Director Emeritus
Bobby Vance
  Director Emeritus

Officers

Joseph C. Murphy
  President and CEO
Thomas P. Porter
  Executive Vice President
Lynn C. McKinney
  Senior Vice President and Cashier
Michael E. Schornick, Jr.
  Senior Vice President
James R. Burkholder
  Vice President,
  Manager of Correspondent
  Banking Division
David C. Barnes
  Vice President,
  Correspondent Banking Division
J. Michael Easley
  Vice President
Bonita M. Glass
  Vice President
Tina M. Johnston
  Vice President,
  Chief Financial Officer
Deborah L. Marshall
  Vice President
Susan K. Tackett
  Vice President
Kimberly T. Thompson
  Vice President
Lorraine B. Baldwin
  Assistant Vice President
Karen K. Kelly
  Assistant Vice President
Paula S. Moran
  Assistant Vice President
Carole S. Wagoner
  Assistant Vice President
Jennifer M. Baldwin
  Assistant Cashier

Kentucky Banking Centers, Inc.
Member FDIC

Directors

Stokes A. Baird, IV, Chairman
Sue Bunnell
G. Anthony Busseni
Anna Kaye Hall
Steve Hayes
Larry Jewell
William Ray
David L. Shadburne, CPA
Terry Smith
Freddie Travis
R. Kevin Vance, DVM

Officers

David L. Shadburne, CPA
  President and CEO
Owen Lambert
  Executive Vice President
Lewis Bauer
  Senior Vice President
Vanessa Puckett
  Senior Vice President
Jeffrey Edwards
  Vice President
Linda Forbes
  Vice President
Greg Isenberg
  Vice President
Jannell Pedigo
  Vice President
Karisa Clark
  Assistant Vice President
Jane T. Howell
  Assistant Vice President
Patty J. Wright
  Assistant Vice President
Daryl Lowe
  Cashier and Head Teller
Ramona Fancher
  Assistant Cashier
Carolyn Russell
  Assistant Cashier
Melissa Sturgeon
  Loan Officer
Sharon Williams
  Loan Officer
Carla Wuertzer
  Loan Officer
Mellyn Church,
  Compliance Officer
Angie Bybee
  Marketing Officer

FCB Services, Inc.

Directors

E. Bruce Dungan, Chairman
G. Anthony Busseni
Charles L. Cammack
Allison B. Gordon
Rickey D. Harp
Lloyd C. Hillard, Jr.
Donald R. Hughes, Jr.
J. C. Moraja
Joseph C. Murphy
David L. Shadburne
Michael M. Sullivan
Karen R. Wade, Secretary

Officers

Donald R. Hughes, Jr.
President and CEO

Karen R. Wade
Executive Vice President

Bill Ballinger
Vice President

William Bell
Vice President

Michael Hedges
Vice President

Rita Kennedy
Vice President

Martin Serafini
Vice President

Steve Bolin
Assistant Vice President

Jeffrey S. Brewer
Assistant Vice President

James F. Palmer
Assistant Vice President

Jason M. Purcell
Assistant Vice President

Leasing One Corporation

Directors

G. Anthony Busseni, Chairman
Bruce W. Brooks
C. Douglas Carpenter
L. Hobbs Cheek, CPA
Rickey D. Harp
David Lee
Charles J. Mann
Marvin E. Strong

Officers

Charles J. Mann
President and CEO

Mark Lester
Vice President

Jim Morris
Vice President

Eddie Miller
Assistant Vice President

Farmers Capital Insurance Corporation

Directors

G. Anthony Busseni, Chairman
Rickey D. Harp
Jamey Bennett
Sue Coles

Officers

G. Anthony Busseni
Chairman

Rickey D. Harp
President

Jamey Bennett
Vice President

Sue Coles
Secretary

doing business as:
Capital Insurance Group
Farmers Title Company

Allowance for loan losses
A valuation allowance to offset credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable losses in the remainder of the portfolio at the balance sheet date. Management estimates the allowance balance required using past loan loss experience, an assessment of the financial condition of individual borrowers, a determination of the value and adequacy of underlying collateral, the condition of the local economy, an analysis of the levels and trends of the loan portfolio, and a review of delinquent and classified loans. Actual losses could differ significantly from the amounts estimated by management.

Dividend payout
Cash dividends paid on common shares, divided by net income.

Basis points
Each basis point is equal to one hundredth of one percent. Basis points are calculated by multiplying percentage points times 100. For example: 3.7 percentage points equals 370 basis points.

Interest rate sensitivity
The relationship between interest sensitive earning assets and interest bearing liabilities.

Net charge-offs
The amount of total loans charged off net of recoveries of loans that have been previously charged off.

Net interest income
Total interest income less total interest expense.

Net interest margin
Taxable equivalent net interest income expressed as a percentage of average earning assets.

Net interest spread
The difference between the yield on earning assets and the rate paid on interest bearing funds.

Other real estate owned
Real estate not used for banking purposes. For example, real estate acquired through foreclosure.

Provision for loan losses
The charge against current income needed to maintain an adequate allowance for loan losses.

Return on average assets (ROA)
Net income divided by average total assets. Measures the relative profitability of the resources utilized by the Company.

Return on average equity (ROE)
Net income divided by average shareholders' equity. Measures the relative profitability of the shareholders' investment in the Company.

Tax equivalent basis (TE)
Income from tax-exempt loans and investment securities have been increased by an amount equivalent to the taxes that would have been paid if this income were taxable at statutory rates. In order to provide comparisons of yields and margins for all earning assets, the interest income earned on tax-exempt assets is increased to make them fully equivalent to other taxable interest income investments.

Weighted average number of common shares outstanding
The number of shares determined by relating (a) the portion of time within a reporting period that common shares have been outstanding to (b) the total time in that period.

The following pages present management's discussion and analysis of the consolidated financial condition and results of operations of Farmers Capital Bank Corporation (the "Company"), which includes both its banking and nonbanking subsidiaries. Banking subsidiaries include Farmers Bank & Capital Trust Co. ("Farmers Bank") in Frankfort, KY and its insurance and leasing company subsidiaries; Farmers Bank and Trust Company in Georgetown, KY; First Citizens Bank in Shepherdsville, KY; United Bank & Trust Co. in Versailles, KY; Lawrenceburg National Bank in Harrodsburg, KY; and Kentucky Banking Centers, Inc. in Glasgow, KY. The Company's only active nonbank subsidiary is FCB Services, Inc., a data processing subsidiary located in Frankfort, KY. The following discussion should be read in conjunction with the audited consolidated financial statements and related footnotes that follow.

Forward-Looking Statements

This report contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Although management of the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to: economic conditions (both generally and more specifically in the markets in which the Company and its subsidiaries operate); competition for the Company's customers from other providers of financial services; government legislation and regulation (which changes from time to time and over which the Company has no control); changes in interest rates; material unforeseen changes in the liquidity, results of operations, or financial condition of the Company's customers; and other risks detailed in the Company's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of the Company. The Company expressly disclaims any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations.

Application of Critical Accounting Policies

The Company's audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices applicable to the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon 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 other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Company are presented in Footnote 1 in the notes to the Company's 2003 audited consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this 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 the determination of the allowance for loan losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents credit losses specifically identified in the loan portfolio, as well as management's estimate of probable credit losses in the loan portfolio at the balance sheet date. Determining the amount of the allowance for loan losses and the related provision for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset group on the consolidated balance sheet. Additional information related to the allowance for loan losses that describes the methodology and risk factors can be found under the captions "Asset Quality" and "Nonperforming Assets" in this management's discussion and analysis of financial condition and results of operation, as well as Footnotes 1 and 4 in the notes to the Company's 2003 audited consolidated financial statements.

RESULTS OF OPERATIONS

Consolidated net income for 2003 was $13.0 million, an increase of $402 thousand or 3.2% compared to $12.6 million for 2002. Basic and diluted net income per share for 2003 was $1.93 and $1.92, respectively. This represents an increase of $.10 or 5.5% on both a basic and diluted basis. Continued declines in the overall market interest rate environment resulted in lower net interest income, which slowed the growth in net income. The decline in net interest income was offset by a $2.2 million or 45.4% decrease in the provision for loan losses. This improvement is due primarily to unusually large provisions recorded in the prior year related to the decline in credit quality of a pool of construction loans secured by residential real estate. Noninterest income grew $1.3 million or 7.6% and is attributed to income from the purchase of company-owned life insurance in the current year. Noninterest expenses increased $1.4 million or 3.9%, which includes a $650 thousand or 3.2% increase in personnel expenses.

The return on assets ("ROA") was 1.04% in 2003, unchanged from the prior year. The return on equity ("ROE") increased 35 basis points to 10.39% compared to 10.04% in the prior year. The increase in ROE is a result of the $402 thousand increase in reported net income combined with a $314 thousand decrease in the average balance of shareholders' equity.

Interest Income

Interest income results from interest earned on earning assets, which primarily include loans and investment securities. Interest income is affected by volume (average balance), composition of earning assets, and the related rates earned on those assets. Total interest income for 2003 was $58.4 million, a decrease of $7.9 million or 11.9% from the previous year. The decrease in interest income is the result of existing variable rate earning assets repricing to lower rates combined with the funding of new earning assets at lower rates in a lower interest rate environment. The decrease in interest income during 2003 compared to the prior year was as follows: loans $3.6 million or 6.9%; taxable securities $3.5 million or 34.9%; nontaxable securities $250 thousand or 7.1%; federal funds sold and securities purchased under agreements to resell $430 thousand or 40.9%; and deposits in other banks $122 thousand or 65.9%. The $3.6 million decrease in interest income from loans was due primarily to an 87 basis point decrease in the taxable equivalent average interest rate to 6.5% from 7.4%. The decrease in the average interest rate earned on loans offset a $37.2 million or 5.3% increase in the average balance outstanding. The $3.5 million decrease in interest income from taxable securities was due to a 160 basis point decline in the average interest rate to 2.6% from 4.2%. This decline offset growth in the average balance of $11.5 million or 4.8% to $250.0 million. Contributing to the decline in interest income from taxable securities was the prepayment of mortgage-backed investments, which have increased greatly due to corresponding refinancing of home mortgages that serve as collateral for these investments. In general, as market interest rates have fallen, many borrowers whose mortgage debt was included in these investments refinanced their debt at lower interest rates. This results in the related mortgage-backed investments being repaid faster than anticipated, causing any premium paid on the original investment to amortize against interest income and produce lower yields. The $250 thousand decrease in interest on nontaxable securities is due to both a 24 basis point decline in the average rate to 6.4% from 6.6% along with a decline in the average balance of $2.2 million or 2.9%. Interest on deposits in other banks, federal funds sold and securities purchased under agreements to resell declined $552 thousand or 44.7% due mainly to a decrease in the average interest rate earned of 64 basis points to 1.2% from 1.8% combined with a $9.6 million or 13.9% decrease in the average balance outstanding. The volume of all interest earning assets increased $37.0 million or 3.4% while the tax equivalent yield declined 93 basis points to 5.4% compared to 6.3% in the prior year.

Interest Expense

Interest expense results from incurring interest on interest bearing liabilities, which primarily include interest bearing deposits, federal funds purchased and securities sold under agreements to repurchase, and other borrowed funds. Interest expense is affected by volume, composition of interest bearing liabilities, and the related rates paid on those liabilities. Total interest expense was $19.9 million for 2003, a decrease of $5.9 million or 22.8% from the prior year. Consistent with the decrease in general market interest rates throughout the year, the Company experienced a 71 basis point reduction in the overall cost of funds for 2003 to 2.1% from 2.8% reported in the prior year. The reduction in the overall cost of funds negated a $31.7 million or 3.4% increase in the average balance of interest bearing sources of funds.

Interest expense on time deposits, the largest component of total interest expense, decreased $4.4 million or 24.0% to $13.9 million. A decline in the average rate paid on time deposits offset an increase in the average balance outstanding and was the primary reason for the decrease in interest expense. The average rate paid decreased 123 basis points to 3.3% while the average balance increased $18.1 million or 4.5%. Interest expense on savings deposits and interest bearing demand deposits decreased $645 thousand or 28.2% and $616 thousand or 32.6%, respectively. These decreases were due primarily to decreases in the average rate paid on savings and interest bearing demand deposits of 41 basis points to 1.0% and 31 basis points to .6%, respectively. The average balance of savings deposits and interest bearing demand deposits increased $4.9 million or 2.9% and $11.5 million or 5.3%, respectively.

Interest expense on federal funds purchased and securities sold under agreements to repurchase decreased $784 thousand or 47.6% due to decreases in both volume and rate of $22.7 million or 24.4% and 54 basis points or 30.5%. Interest expense on other borrowed funds consists primarily of Federal Home Loan Bank ("FHLB") borrowings, a funding source that the Company began to use to a greater extent during 2002 and continued to do so during 2003. Interest expense on other borrowed funds totaled $2.2 million in 2003, an increase of $585 thousand or 36.9% compared to the prior year. A $19.9 million or 46.2% increase in the average balance outstanding offset a 24 basis point or 6.5% decline in the average rate paid.

Net Interest Income

Net interest income is the most significant component of the Company's earnings. Net interest income is the excess of the interest income earned on earning assets over the interest paid for funds to support those assets. The two most common metrics used to analyze net interest income are net interest spread and net interest margin. Net interest spread represents the difference between the yields on earning assets and the rates paid on interest bearing liabilities. Net interest margin represents the percentage of net interest income to average earning assets. Net interest margin will exceed net interest spread because of the existence of noninterest bearing sources of funds, principally demand deposits and shareholders' equity, which are also available to fund earning assets. Changes in net interest income and margin result from the interaction between the volume and the composition of earning assets, their related yields, and the associated cost and composition of the interest bearing liabilities. Accordingly, portfolio size, composition, and the related yields earned and the average rates paid can have a significant impact on net interest spread and margin. The table on the following page represents the major components of interest earning assets and interest bearing liabilities on a tax equivalent basis. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to pretax equivalents based on the marginal corporate Federal tax rate of 35%.

Tax equivalent net interest income was $40.5 million for 2003, a decrease of $2.2 million or 5.2% compared to $42.7 million in 2002. The net interest margin was 3.59%, a decrease of 33 basis points from 3.92% in the prior year. A decline in net interest spread accounts for

22 basis points of the decline in margin while the impact of noninterest bearing sources of funds contributed 11 basis points. The effect of noninterest bearing sources of funds on net interest margin is reflective of the falling rate environment.

During 2003, the tax equivalent yield on total earning assets decreased 93 basis points to 5.4% while the cost of funds decreased by the smaller amount of 71 basis points to 2.1%, resulting in the 22 basis point decrease in spread noted above. The larger decline in the rates earned on earning assets versus the rates paid on interest paying liabilities is responsible for the decrease in net interest income. The tax equivalent spread between rates earned on earning assets and rates paid on interest bearing liabilities totaled 3.3% for 2003 compared to 3.5% a year earlier.

The Company remains proactive in management of the rate sensitive components of both its assets and liabilities. This task continues to be challenging due to the lasting effects of the sharply falling interest rate environment that has carried over from previous periods whereby we are still experiencing historically low interest rates. Predicting the movement of interest rates is uncertain. During the past year, rates on earning assets have generally declined faster than the rates paid on interest bearing liabilities. Should interest rates continue to decline, the Company's cost of funds should decline to some degree as well. However, since many of the Company's funding sources have neared their repricing floors, the yield on earning assets could potentially decline to a greater degree than has occurred in the current period. Should interest rates begin to move upward, the Company's cost of funds could potentially increase faster than the yields on earning assets.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

Years Ended December 31,	**2003**			2002			2001		
(In thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning Assets									
Investment securities									
Taxable	$ 250,030	$ 6,549	2.62%	$ 238,496	$10,062	4.22%	$ 188,927	$10,466	5.54%
Nontaxable[1]	75,661	4,838	6.39	77,908	5,168	6.63	74,225	4,845	6.53
Time deposits with banks, federal funds sold and securities purchased under agreements to resell	59,391	684	1.15	68,948	1,236	1.79	82,801	3,332	4.02
Loans[1,2,3]	742,319	48,272	6.50	705,090	51,970	7.37	698,758	60,382	8.64
Total earning assets	1,127,401	$ 60,343	5.35%	1,090,442	$68,436	6.28%	1,044,711	$79,025	7.56%
Allowance for loan losses	(11,224)			(10,951)			(10,585)		
Total earning assets, net of allowance for loan losses	1,116,177			1,079,491			1,034,126		
Nonearning Assets									
Cash and due from banks	78,889			91,219			70,916		
Premises and equipment, net	24,205			24,053			25,151		
Other assets	31,478			11,599			13,434		
Total assets	$1,250,749			$1,206,362			$1,143,627		
Interest Bearing Liabilities									
Deposits									
Interest bearing demand	$ 227,217	$ 1,271	.56%	$ 215,766	$ 1,887	.87%	$ 199,067	$ 3,312	1.66%
Savings	171,942	1,645	.96	167,044	2,290	1.37	162,665	4,153	2.55
Time	422,749	13,934	3.30	404,658	18,337	4.53	385,620	22,251	5.77
Federal funds purchased and securities sold under agreements to repurchase	70,242	863	1.23	92,912	1,647	1.77	103,320	3,927	3.80
Other borrowed funds	62,995	2,170	3.44	43,092	1,585	3.68	13,698	714	5.21
Total interest bearing liabilities	955,145	$ 19,883	2.08%	923,472	$25,746	2.79%	864,370	$34,357	3.97%
Noninterest Bearing Liabilities									
Commonwealth of Kentucky deposits	33,831			33,318			32,935		
Other demand deposits	128,136			117,505			115,821		
Other liabilities	8,815			6,931			7,512		
Total liabilities	1,125,927			1,081,226			1,020,638		
Shareholders' equity	124,822			125,136			122,989		
Total liabilities and shareholders' equity	$1,250,749			$1,206,362			$1,143,627		
Net interest income		40,460			42,690			44,668	
TE basis adjustment		(1,930)			(2,145)			(1,986)	
Net interest income		$ 38,530			$40,545			$42,682	
Net interest spread			3.27%			3.49%			3.59%
Effect of noninterest bearing sources of funds			.32			.43			.69
Net interest margin			3.59%			3.92%			4.28%

[1]Income and yield stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.
[2]Loan balances include principal balances on nonaccrual loans.
[3]Loan fees included in interest income amounted to $2.1 million, $2.0 million, and $1.7 million for 2003, 2002, and 2001, respectively.

The following table is an analysis of the change in net interest income.

Analysis of Changes in Net Interest Income (tax equivalent basis)

(In thousands)	Variance 2003/2002[1]	Variance Attributed to Volume	Variance Attributed to Rate	Variance 2002/2001[1]	Variance Attributed to Volume	Variance Attributed to Rate
Interest Income						
Taxable investment securities	$ (3,513)	$ 466	$ (3,979)	$ (404)	$ 2,402	$ (2,806)
Nontaxable investment securities[2]	(330)	(146)	(184)	323	247	76
Time deposits with banks, federal funds sold and securities purchased under agreements to resell	(552)	(154)	(398)	(2,096)	(486)	(1,610)
Loans[2]	(3,698)	2,649	(6,347)	(8,412)	542	(8,954)
Total interest income	(8,093)	2,815	(10,908)	(10,589)	2,705	(13,294)
Interest Expense						
Interest bearing demand deposits	(616)	94	(710)	(1,425)	258	(1,683)
Savings deposits	(645)	65	(710)	(1,863)	109	(1,972)
Time deposits	(4,403)	785	(5,188)	(3,914)	1,055	(4,969)
Federal funds purchased and securities sold under agreements to repurchase	(784)	(348)	(436)	(2,280)	(362)	(1,918)
Other borrowed funds	585	693	(108)	871	1,135	(264)
Total interest expense	(5,863)	1,289	(7,152)	(8,611)	2,195	(10,806)
Net interest income	$ (2,230)	$ 1,526	$ (3,756)	$ (1,978)	$ 510	$ (2,488)
Percentage change	100.0%	(68.4)%	168.4%	100.0%	(25.8)%	125.8%

[1]The changes which are not solely due to rate or volume are allocated on a percentage basis using the absolute values of rate and volume variances as a basis for allocation.
[2]Income stated at fully tax equivalent basis using the marginal corporate Federal tax rate of 35%.

Noninterest Income

Noninterest income totaled $17.9 million for 2003, an increase of $1.3 million or 7.6% compared to $16.6 million in the prior year. The most significant increase in noninterest income results from the purchase of company-owned life insurance. During 2003, the company purchased life insurance on certain key employees to offset the rising cost of the Company's employee benefit plans. The income represents the change in the cash surrender value and proceeds received, if any, from the policies during the period. For 2003, this amounted to $1.5 million. Net gains on the sale of mortgage loans totaled $880 thousand, an increase of $319 thousand or 56.9% resulting from a $14.8 million increase in mortgage loans originated for sale. Although mortgage loans originated for sale activity began to slow in the fourth quarter of 2003, the increase for the year has been driven by the historically low market interest rates along with the Company's efforts to increase correspondent banking relationships. In recent years, the Company has typically sold all of its loans originated for sale into the secondary market with the related loan servicing released. Net gains on the sale of investment securities were $965 thousand, a decrease of $468 thousand or 32.7% compared to 2002. Investment securities were sold during the year in an effort to better position the balance sheet in the current low interest rate environment. Service charges and fees on deposits, the largest component of noninterest income, decreased $170 thousand or 2.2% primarily due to a decrease in overdraft volume.

Noninterest Expense

Total noninterest expense was $37.5 million for 2003, an increase of $1.4 million or 3.9% compared to 2002. Salaries and employee benefits accounted for more than half of the total noninterest expense and a significant portion of the increase from 2002. During 2003, salaries and employee benefits increased $650 thousand or 3.2% to $20.7 million. Employee benefit related expenses increased $307 thousand or 8.6% due primarily to the new postretirement health insurance coverage initiated during the first quarter of 2003. Salaries and related payroll taxes increased $472 thousand or 3.0% due mainly to normal annual increases. Noncash compensation expense related to the Company's nonqualified stock option plan decreased $126 thousand or 23.4% and is primarily due to the structure of the vesting schedule. As of December 31, 2003, the Company had 459 full time equivalent employees, up slightly from 458 from the prior year-end.

Net occupancy expense totaled $2.5 million at year-end 2003, an increase of $102 thousand or 4.2% compared to 2002. The increase is due to normal maintenance and increased utilities costs. Equipment expenses totaled $3.8 million, an increase of $107 thousand or 2.9% due mainly to higher depreciation related to additional asset purchases. Other noninterest expenses were $9.2 million, an increase of $496 thousand or 5.7%. Other noninterest expenses include a $137 thousand increase in correspondent

banking costs that are volume related and attributed to the relationship between the Company's principle subsidiary, Farmers Bank and the Commonwealth of Kentucky.

Income Tax

Income tax expense for 2003 was $3.4 million, a decrease of $405 thousand or 10.7% from the previous year. The effective tax rate decreased 248 basis points to 20.6% from 23.1% in 2002. The change in the effective tax rate is due primarily to the addition of nontaxable income accrued from the increase in cash surrender value on company-owned life insurance purchased during the year on key employees.

FINANCIAL CONDITION

On December 31, 2003, the Company reported total assets of $1.3 billion, an increase of $43.0 million or 3.4% from the prior year-end. The growth in assets includes increases in cash and equivalents of $60.1 million or 89.6%, net loans of $17.1 million or 2.3%, and company-owned life insurance of $25.5 million. These increases were funded by an increase in total deposits of $110.8 million, partially offset by a decline in borrowings of $68.8 million or 37.7%, and a decline in investment securities of $58.6 million or 13.3%. The makeup of the balance sheet continually changes as the Company responds to extremely competitive market forces. Management of the Company considers it noteworthy to understand the relationship between the Company's principal subsidiary, Farmers Bank and the Commonwealth of Kentucky. Farmers Bank provides various services to state agencies of the Commonwealth. As the depository for the Commonwealth, these agencies issue checks drawn on Farmers Bank, including paychecks and state income tax refunds. Farmers Bank also processes vouchers of the WIC (Women, Infants and Children) program for the Cabinet for Human Resources. The Bank's investment department also provides services to the Teacher's Retirement System. As the depository for the Commonwealth, large fluctuations in deposits are likely to occur on a daily basis. Therefore, reviewing average balances is also important to understanding the financial condition of the Company. On an average basis, total assets were $1.3 billion for 2003, an increase of $44.4 million or 3.7% from the prior year. Average earning assets, primarily loans and investment securities, increased $37.0 million or 3.4% to $1.1 billion. Average earning assets were 90.1% of total average assets for the year ending December 31, 2003, a decline from 90.4% in the prior year.

Loans

Loans, net of unearned income, totaled $755.9 million, an increase of $17.3 million or 2.3% from year-end 2002. Substantially all of the increase was in real estate lending. Real estate mortgage loans make up 65.2% of the total loans outstanding at December 31, 2003 and increased $33.1 million or 7.2% compared to a year earlier. Commercial, financial, and agricultural loans increased a modest $601 thousand or .5% to $110.7 million. These increases were offset by decreases in real estate construction loans of $10.5 million or 18.8%, installment loans of $4.6 million or 6.0%, and lease financing of $1.3 million or 3.5%. On average, loans represented 65.8% of earning assets during 2003 compared to 64.7% for 2002. As loan demand declines, the available funds are redirected to lower earning temporary investments or investment securities, which typically involve a decrease in credit risk and lower yields.

The composition of the loan portfolio is summarized in the table below.

(In thousands) December 31,	**2003**	%	2002	%	2001	%	2000	%	1999	%
Commercial, financial, and agricultural	$ 110,657	14.6%	$ 110,056	14.9%	$ 108,516	15.4%	$ 105,248	15.4%	$ 105,064	16.3%
Real estate — construction	45,390	6.0	55,896	7.6	41,930	6.0	40,993	6.0	38,471	6.0
Real estate mortgage — residential	270,638	35.8	251,185	34.0	247,498	35.3	248,420	36.4	237,080	36.8
Real estate mortgage — farmland and other commercial enterprises	222,100	29.4	208,435	28.2	184,670	26.3	177,135	25.9	153,518	23.9
Installment	71,565	9.5	76,162	10.3	78,399	11.2	77,284	11.3	77,051	12.0
Lease financing	35,595	4.7	36,905	5.0	40,856	5.8	34,269	5.0	32,379	5.0
Total	$755,945	100.0%	$738,639	100.0%	$ 701,869	100.0%	$ 683,349	100.0%	$643,563	100.0%

The following table presents commercial, financial, and agricultural loans and real estate construction loans outstanding at December 31, 2003 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

Loan Maturities

(In thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial, financial, and agricultural	$ 77,728	$ 19,284	$ 13,645	$110,657
Real estate — construction	41,770	2,733	887	45,390
Total	$119,498	$ 22,017	$ 14,532	$156,047

The table below presents commercial, financial, and agricultural loans and real estate construction loans outstanding at December 31, 2003 that are due after one year, classified according to sensitivity to changes in interest rates.

Interest Sensitivity

(In thousands)	Fixed Rate	Variable Rate
Due after one but within five years	$ 9,979	$ 12,038
Due after five years	4,211	10,321
Total	$ 14,190	$ 22,359

Asset Quality

The Company's loan portfolio is subject to varying degrees of credit risk. Credit risk is mitigated by diversification within the portfolio, limiting exposure to any single customer or industry, standard lending policies and underwriting criteria, and collateral requirements. The Company maintains policies and procedures to ensure that the granting of credit is done in a sound and consistent manner. This includes policies on a company-wide basis that require certain minimum standards to be maintained. However, the policies also permit the individual subsidiary companies authority to adopt standards that are no less stringent than those included in the company-wide policies. Credit decisions are made at the subsidiary bank level under guidelines established by policy. The Company's internal audit department performs loan review at each subsidiary bank during the year. This loan review evaluates loan administration, credit quality, documentation, compliance with Company loan standards, and the adequacy of the allowance for loan losses on a consolidated and subsidiary basis.

The provision for loan losses represents charges made to earnings to maintain an allowance for loan losses at an adequate level based on credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable loan losses in the remainder of the portfolio at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, an assessment of the financial condition of individual borrowers, a determination of the value and adequacy of underlying collateral, the condition of the local economy, an analysis of the levels and trends of the loan portfolio, and a review of delinquent and classified loans. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Actual loan losses could differ significantly from the amounts estimated by management.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current risk factors.

While management considers the allowance for loan losses to be adequate based on the information currently available, additional adjustments to the allowance may be necessary due to changes in the factors noted above. Borrowers may experience difficulty in periods of economic deterioration, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require additional increases in the provision. Also, regulatory agencies, as an integral part of their examinations, periodically review the allowance for loan losses. These reviews could result in additional adjustments to the provision based upon their judgments about relevant information available during their examination.

The provision for loan losses totaled $2.6 million in 2003, a decrease of $2.2 million or 45.4% compared to $4.7 million reported in 2002. The Company had $2.4 million in net charge-offs, a decrease of $1.8 million or 44.3% compared to $4.2 million in the prior year. Net charge-offs were as follows during 2003: real estate lending $873 thousand, installment loans to individuals $841 thousand, lease financing $366 thousand, and commercial, financial, and agricultural $281 thousand. The decrease in net charge-offs relates primarily to a decline in the credit quality of a pool of construction loans secured by residential real estate to a financially troubled builder during 2002. Additional information related to this pool of loans is included under the caption "Nonperforming Assets" below. Net charge-offs equaled .32% of average loans for 2003, a decrease of 28 basis points compared to the prior year. The allowance for loan losses was $11.3 million at year-end 2003 and represented 1.49% of loans net of unearned income at year-end 2003 compared to 1.50% at year-end 2002. The allowance for loan losses as a percentage of nonperforming loans totaled 123.9% and 57.3% at year-end 2003 and 2002, respectively. The increase for 2003 reflects the $10.4 million reduction of loans on nonaccrual status during 2003 as noted under the caption "Nonperforming Assets" below. Management continues to emphasize collection efforts and evaluation of risks within the portfolio. The composition of the Company's loan portfolio continues to be diverse with no significant concentration to any individual or industry.

The table below summarizes the loan loss experience for the past five years.

Years Ended December 31, (In thousands)	**2003**	2002	2001	2000	1999
Balance of allowance for loan losses					
at beginning of year	$ 11,061	$ 10,549	$ 10,249	$ 9,659	$ 9,048
Loans charged off:					
Commercial, financial, and agricultural	376	481	600	1,336	1,590
Real estate	936	2,833	1,476	369	79
Installment loans to individuals	1,090	1,146	762	857	1,209
Lease financing	385	147	87	97	64
Total loans charged off	2,787	4,607	2,925	2,659	2,942
Recoveries of loans previously charged off:					
Commercial, financial, and agricultural	95	63	157	313	249
Real estate	63	71	371	132	172
Installment loans to individuals	249	232	247	310	267
Lease financing	19	5	2	22	2
Total recoveries	426	371	777	777	690
Net loans charged off	2,361	4,236	2,148	1,882	2,252
Additions to allowance charged to expense	2,592	4,748	2,448	2,472	2,863
Balance at end of year	$ 11,292	$ 11,061	$ 10,549	$ 10,249	$ 9,659
Average loans net of unearned income	$742,319	$705,090	$698,758	$ 667,241	$618,860
Ratio of net charge-offs during year to average loans, net of unearned income	.32%	.60%	.31%	.28%	.36%

The following table presents an estimate of the allocation of the allowance for loan losses by type for the date indicated. Although specific allocations exist, the entire allowance is available to absorb losses in any particular category.

Allowance for Loan Losses

December 31, (In thousands)	**2003**	2002	2001	2000	1999
Commercial, financial, and agricultural	$ 2,349	$ 3,913	$ 3,492	$ 4,050	$ 3,649
Real estate	6,164	4,838	4,135	3,835	3,807
Installment loans to individuals	1,797	1,879	2,208	1,861	1,829
Lease financing	982	431	714	503	374
Total	$ 11,292	$ 11,061	$ 10,549	$ 10,249	$ 9,659

Nonperforming Assets

Nonperforming assets for the Company include nonperforming loans, other real estate owned, and other foreclosed assets. Nonperforming loans consist of nonaccrual loans, loans past due 90 days on which interest is still accruing, and restructured loans. Generally, the accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed 90 days or more, unless such loan is well secured and in the process of collection.

Nonperforming assets totaled $11.2 million at year-end 2003, a decrease of $8.6 million or 43.4% compared to 2002. The decrease is primarily due to a $10.4 million or 66.5% reduction in nonaccrual loans. The decrease in nonaccrual loans is related primarily to the deterioration in the credit quality of a pool of construction loans secured by residential real estate to a financially troubled builder during 2002. This pool of loans totaled $4.2 million at December 31, 2003, a decrease of $8.7 million compared to the $12.9 million balance at year-end 2002. The $8.7 million reduction in 2003 is comprised of the following: $7.1 million in proceeds attributed to the sale of the underlying real estate collateral; $1.1 million of the underlying real estate collateral transferred to the Company through foreclosure; and $514 thousand in additional charge-offs. Interest income lost on this pool of loans due to their nonaccrual status totaled $621 thousand and $707 thousand for the twelve months ended December 31, 2003 and 2002. At the current outstanding balance, it is estimated that a total of $95 thousand of interest income will be lost in each subsequent quarter related to this credit while it remains on nonaccrual status.

Nonperforming loans represent 1.2% of loans net of unearned income at year-end 2003, a decrease of 140 basis points from 2.6% compared to year-end 2002. Information pertaining to nonperforming loans and assets is presented in the table below.

December 31, (In thousands)	**2003**	2002	2001	2000	1999
Loans accounted for on nonaccrual basis	$ 5,258	$ 15,681	$ 3,621	$ 2,852	$ 2,767
Loans past due 90 days or more and still accruing	3,856	3,624	1,593	1,739	2,102
Total nonperforming loans	9,114	19,305	5,214	4,591	4,869
Other real estate owned	1,803	385	715	598	734
Other foreclosed assets	292	126	363	136	95
Total nonperforming assets	$ 11,209	$ 19,816	$ 6,292	$ 5,325	$ 5,698

Temporary Investments

Temporary investments consist of interest bearing deposits in other banks and federal funds sold and securities purchased under agreements to resell. The Company uses these funds in the management of liquidity and interest rate sensitivity. In 2003, temporary investments averaged $59.4 million, a decrease of $9.6 million or 13.9%. This decrease is primarily a result of the relationship between the Company's principal subsidiary and the Commonwealth of Kentucky as described in preceding sections of this annual report. Temporary investments are reallocated as loan demand and other investment alternatives present the opportunity.

Investment Securities

The investment securities portfolio is comprised primarily of U.S. Government agency securities, mortgage-backed securities, and tax-exempt securities of states and political subdivisions. Total investment securities were $383.0 million on December 31, 2003, a decrease of $59.0 million or 13.3% from year-end 2002.

The funds made available from maturing or called bonds have been redirected as necessary to fund higher yielding loan growth, reinvested to purchase additional investment securities, or otherwise employed to improve the composition of the balance sheet. The purchase of nontaxable obligations of states and political subdivisions is one of the primary means of managing the Company's tax position. The alternative minimum tax is not expected to impact the Company's ability to acquire tax-free obligations in the near future as they become available at an attractive yield.

Investment securities averaged $325.7 million in total for the year, an increase of $9.3 million or 2.9%. The majority of the purchases during 2003 were U.S. Government agencies and mortgage-backed securities classified as available for sale. On December 31, 2003, available for sale securities made up 93.5% of the total investment securities, unchanged from a year earlier. U.S. Government agencies were 36.6% of the total available for sale securities and 34.2% of the total portfolio at year-end. A year ago, U.S. Government agencies made up 39.2% of the total available for sale securities and 36.7% of the total portfolio. Mortgage-backed securities in the available for sale portfolio were relatively unchanged at $147.1 million at year-end 2003 compared to year-end 2002. Mortgage-backed securities accounted for 41.1% of the available for sale securities portfolio and represent 38.4% of the total portfolio.

The prepayment of mortgage-backed investments has increased greatly due to corresponding refinancing of home mortgages that serve as collateral for these investments. In general, as market interest rates have fallen, many borrowers whose mortgage debt was included in these investments refinanced their debt at lower interest rates. This results in the related mortgage-backed investments being repaid faster than anticipated, causing any premium paid on the original investment to amortize against interest income and produce lower yields.

The Company realized $965 thousand in net gains on the sale of available for sale securities during 2003, a decrease of $468 thousand or 32.7% compared to 2002. The decrease in gains on the sale of available for sale securities was due to normal asset/liability management and occurred with favorable market conditions related to the securities sold. On December 31, 2003, shareholders' equity included a $2.1 million unrealized gain, net of tax, related to the increase in value of the available for sale securities portfolio. This amount was $3.6 million at year-end 2002 and is lower in part due to the sale of investments during the current year and the increased premium amortization of mortgage-backed investment securities.

The following table summarizes the carrying values of investment securities on December 31, 2003, 2002, and 2001. The investment securities are divided into available for sale and held to maturity securities. Available for sale securities are carried at the estimated fair value and held to maturity securities are carried at amortized cost.

December 31,	**2003**		2002		2001	
(In thousands)	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Obligations of U.S. Government agencies	$ 131,020		$ 161,867	$ 100	$ 155,693	$ 100
Obligations of states and political subdivisions	73,651	$ 24,718	51,556	28,242	41,791	37,055
Mortgage-backed securities	147,110	71	148,407	177	99,819	306
Money market mutual funds			35,021			
Corporate debt			10,259		4,873	
Equity securities	6,388		5,928		5,905	
Total	$ 358,169	$ 24,789	$ 413,038	$ 28,519	$ 308,081	$ 37,461

The following table presents an analysis of the contractual maturity distribution and tax equivalent weighted average interest rates of investment securities at December 31, 2003. For purposes of this analysis, available for sale securities are stated at fair value and held to maturity securities are stated at amortized cost. Equity securities in the available for sale portfolio consist primarily of restricted FHLB stock and investments in unrelated financial institution stocks, which have no stated maturity and are not included in the maturity schedule that follows.

Available for Sale

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(In thousands)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Obligations of U.S. Government agencies	$ 45,887	1.0%	$ 85,134	2.3%				
Obligations of states and political subdivisions	793	5.3	6,045	6.0	$ 48,046	4.9%	$ 18,767	6.3%
Mortgage-backed securities	5,856	3.9	51,114	4.7	50,055	4.7	40,084	5.0
Total	$ 52,536	1.4%	$ 142,293	3.3%	$ 98,101	4.8%	$ 58,851	5.4%

Held to Maturity

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(In thousands)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Obligations of states and political subdivisions	$ 3,923	6.9%	$ 18,065	6.9%	$ 1,340	7.2%	$ 1,390	6.4%
Mortgage-backed securities			71	7.2				
Total	$ 3,923	6.9%	$ 18,136	6.9%	$ 1,340	7.2%	$ 1,390	6.4%

The calculation of the weighted average interest rates for each category is based on the weighted average costs of the securities. The weighted average tax rates on exempt states and political subdivisions are computed based on the marginal corporate Federal tax rate of 35%.

Deposits

The Company's primary source of funding for its lending and investment activities results from its customer deposits, which consist of noninterest and interest bearing demand, savings, and time deposits. On December 31, 2003, deposits totaled $1.1 billion, an increase of $110.8 million or 11.6% from year-end 2002. The increase in deposits was mainly due to an $85.4 million increase in noninterest bearing deposits related to the Commonwealth of Kentucky. Average deposits were $983.9 million in 2003, an increase of $45.6 million or 4.9% compared to 2002. Increases in average deposits were consistent throughout the entire deposit portfolio.

During 2003, total average interest bearing deposits increased $34.4 million or 4.4% to $821.9 million, while average noninterest bearing deposits increased $11.1 million or 7.4% to $162.0 million.

A summary of average balances and rates paid on deposits follows.

Years Ended December 31,	**2003**		2002		2001	
(In thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest bearing demand	$161,967		$150,823		$148,756	
Interest bearing demand	227,217	.56%	215,766	.87%	199,067	1.66%
Savings	171,942	.96	167,044	1.37	162,665	2.55
Time	422,749	3.30	404,658	4.53	385,620	5.77
Total	$983,875	1.72%	$938,291	2.40%	$896,108	3.32%

Maturities of time deposits of $100,000 or more outstanding at December 31, 2003 are summarized as follows.

(In thousands)	Amount
3 months or less	$ 30,056
Over 3 through 6 months	22,982
Over 6 through 12 months	28,160
Over 12 months	34,457
Total	$115,655

Short-term Borrowings

Short-term borrowings primarily consist of federal funds purchased and securities sold under agreements to repurchase with year-end balances of $56.7 million, $116.0 million, and $113.8 million in 2003, 2002, and 2001, respectively. Such borrowings are generally on an overnight basis. Other short-term borrowings consist of FHLB borrowings totaling $0, $8.4 million and $12.0 million at year-end 2003, 2002, and 2001, respectively, and demand notes issued to the U.S. Treasury under the treasury tax and loan note option account totaling $418 thousand, $807 thousand, and $808 thousand in 2003, 2002, and 2001, respectively. A summary of short-term borrowings is as follows.

(In thousands)	**2003**	2002	2001
Amount outstanding at year-end	$ 57,116	$ 125,186	$ 126,600
Maximum outstanding at any month-end	141,971	164,950	165,678
Average outstanding	75,790	108,743	108,091
Weighted average rate during the year	1.25%	1.88%	3.80%

Long-term Borrowings

Substantially all of the Company's long-term borrowings consist of FHLB advances to the Company's subsidiary banks. These advances are secured by restricted holdings of FHLB stock that the banks are required to own as well as certain mortgage loans as required by the FHLB. Such advances are made pursuant to several different credit programs, which have their own interest rates and range of maturities. Interest rates on FHLB advances are generally fixed and range between 2.01% and 5.22%, with a weighted average rate of 3.65%, and maturities of up to 20 years. Approximately $25.5 million of the total long-term advances from FHLB are convertible to a floating interest rate following initial fixed rate terms ranging from 1 to 2 years. Once the initial fixed rate term expires, the advances may convert to a floating interest rate indexed to LIBOR only if LIBOR equals or exceeds 7%. FHLB advances are generally used to increase the Company's lending activities and to aid the efforts of asset and liability management by utilizing various repayment options offered by the FHLB. Long-term advances from the FHLB totaled $55.5 million at December 31, 2003, a decrease of $1.6 million or 2.8% from year-end 2002.

Contractual Obligations

The Company is contractually obligated to make payments as follows.

		Payments Due by Period			
Contractual Obligations (In thousands)	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
Long-term debt	$ 55,511	$ 9,077	$ 19,085	$ 12,404	$ 14,945
Capital lease obligations	902	270	560	72	
Operating leases	437	151	267	19	
Total	$ 56,850	$ 9,498	$ 19,912	$ 12,495	$ 14,945

Long-term debt represents FHLB advances pursuant to several different credit programs and is more fully described under the caption "Long-Term Borrowings" above and in Footnote 7 in the accompanying notes to the Company's 2003 audited consolidated financial statements. Capital lease obligations represent amounts relating to the acquisition of various data processing hardware and software. Operating leases include standard business equipment used in the Company's day-to-day business as well as the lease of certain branch sites. Operating lease terms generally range from one to five years, with the ability to extend certain branch site leases at the Company's option.

Effects of Inflation

The majority of the Company's assets and liabilities are monetary in nature. Therefore, the Company differs greatly from most commercial and industrial companies that have significant investments in nonmonetary assets, such as fixed assets and inventories. However, inflation does have an important impact on the growth of assets in the banking industry and on the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation also affects other noninterest expense, which tends to rise during periods of general inflation.

Management believes the most significant impact on financial and operating results is the Company's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities in order to protect against the effects of wide interest rate fluctuations.

Market Risk Management

Market risk is the risk of loss arising from adverse changes in market prices and rates. The Company's market risk is comprised primarily of interest rate risk created by its core banking activities of extending loans and receiving deposits. The Company's success is largely dependent upon its ability to manage this risk. Interest rate risk is defined as the exposure of the Company's net interest income to adverse movements in interest rates. Although the Company manages other risks, such as credit and liquidity risk, management considers interest rate risk to be its most significant risk, which could potentially have the largest and a material effect on the Company's financial condition and results of operations. A sudden and substantial change in interest rates may adversely impact the Company's earnings to the extent that the interest rates earned on assets and paid on liabilities do not change at the same speed, to the same extent, or on the same basis. Other events that could have an adverse impact on the Company's performance include changes in general economic and financial conditions, general movements in market interest rates, and changes in consumer preferences. The Company's primary purpose in managing interest rate risk is to effectively invest the Company's capital and to manage and preserve the value created by its core banking business.

The Company has a Corporate Asset and Liability Management Committee ("ALCO"). ALCO monitors the composition of the balance sheet to ensure comprehensive management of interest rate risk and liquidity. ALCO also provides guidance and support to each ALCO of the Company's subsidiary banks and is responsible for monitoring risks on a company-wide basis. ALCO has established minimum standards in its asset and liability management policy that each subsidiary bank must adopt. However, the subsidiary banks are permitted to deviate from these standards so long as the deviation is no less stringent than that of the Corporate policy.

The Company uses a simulation model as a tool to monitor and evaluate interest rate risk exposure. The model is designed to measure the sensitivity of net interest income and net income to changing interest rates during the next twelve months. Forecasting net interest income and its sensitivity to changes in interest rates requires the Company to make assumptions about the volume and characteristics of many attributes, including assumptions relating to the replacement of maturing earning assets and liabilities. Other assumptions include, but are not limited to, projected prepayments, projected new volume, and the predicted relationship between changes in market interest rates and changes in customer account balances. These effects are combined with the Company's estimate of the most likely rate environment to produce a forecast for the next twelve months. The forecasted results are then adjusted for the effect of a gradual 200 basis point increase and decrease in market interest rates on the Company's net interest income and net income. Because assumptions are inherently uncertain, the model cannot precisely estimate net interest income or net income or the effect of interest rate changes on net interest income and net income. Actual results could differ significantly from simulated results.

At December 31, 2003, the model indicated that if rates were to gradually increase by 200 basis points over the next twelve months, then net interest income (TE) and net income would increase 3.1% and 7.4%, respectively. The model indicated that if rates were to gradually decrease by 200 basis points over the next twelve months, then net interest income (TE) and net income would decrease 5.8% and 13.9%, respectively.

In the current low interest rate environment, it is not practical or possible to reduce certain deposit rates by the same magnitude as rates on earning assets. The average rate paid on some of the Company's deposits is well below 2%. This situation magnifies the model's predicted results when modeling a decrease in interest rates, as earning assets with higher yields have more of an opportunity to reprice at lower rates than lower-rate deposits.

LIQUIDITY

At the Parent Company level, liquidity is primarily affected by the receipt of dividends from its subsidiary banks (see Footnote 16 in the notes to the Company's 2003 audited consolidated financial statements) and cash balances maintained. The Parent Company's primary uses of cash include the payment of dividends to shareholders, repurchasing its common stock, and paying for general operating expenses. The primary source of funds for the Parent Company is the receipt of dividends from its subsidiary banks. As of December 31, 2003, combined retained earnings of the subsidiary banks were $42.1 million, of which $2.2 million was available for the payment of dividends

to the Parent Company without obtaining prior approval from bank regulatory agencies. As a practical matter, payment of future dividends is also subject to the maintenance of other capital ratio requirements. Management expects that in the aggregate, its subsidiary banks will continue to have the ability to dividend adequate funds to the Parent Company. The Parent Company had cash balances of $29.3 million at year-end 2003, an increase of $19.6 million. The increase in cash at the Parent Company is due primarily to $37.0 million in dividends received from its subsidiary banks offset by the purchase of company-owned life insurance totaling $6.8 million. Dividends received from the Company's bank subsidiaries were greater during 2003 compared to previous years due to a change in capital policy for the bank subsidiaries. The policy change was made to increase the efficiency of the Company's capital. Each of the Company's subsidiary banks continued to maintain "well capitalized" status as defined by the FDIC subsequent to the dividend payments.

The Company's objective as it relates to liquidity is to ensure that the subsidiary banks have funds available to meet deposit withdrawals and credit demands without unduly penalizing profitability. In order to maintain a proper level of liquidity, the subsidiary banks have several sources of funds available on a daily basis that can be used for liquidity purposes. Those sources of funds include the subsidiary banks' core deposits, consisting of both business and nonbusiness deposits; cash flow generated by repayment of loan principal and interest; FHLB borrowings; and federal funds purchased and securities sold under agreements to repurchase. As of December 31, 2003 the Company had approximately $152.8 million in additional borrowing capacity under various FHLB, federal funds, and other borrowing agreements.

For the longer term, the liquidity position is managed by balancing the maturity structure of the balance sheet. This process allows for an orderly flow of funds over an extended period of time.

Liquid assets consist of cash, cash equivalents, and available for sale investment securities. At December 31, 2003, liquid assets totaled $485.4 million, a $5.2 million or 1.1% increase compared to the prior year-end. Cash and cash equivalents increased $60.1 million, but was offset by a decrease in available for sale investment securities of $54.9 million in the comparison. The increase in cash and cash equivalents is due mainly to higher levels of Commonwealth of Kentucky deposit activity at year-end. Lower available for sale investment securities balances are reflective of various changes in other balance sheet accounts including, but not limited to, a $17.1 million increase in net loans, the $24.0 million purchase of company-owned life insurance, and changes in other funding sources during the period.

Net cash provided by operating activities was $22.5 million in 2003, an increase of $3.2 million from $19.3 million in the prior year. Net cash provided by investing activities was $6.8 million during 2003 compared to net outflow of cash used in investing activities of $134.2 million in 2002. The $141.0 million difference in the comparison is attributed mainly to a decrease in securities purchased in the current year of $139.1 million. Other significant changes were a $24.0 million purchase of company-owned life insurance and a decrease of $20.0 million in loans originated for investment, net of principal collections in the year-end comparison. Net cash provided by financing activities totaled $30.8 million for the year 2003, a decrease of $44.8 million or 59.3% due primarily to $44.3 million in additional FHLB borrowings during the prior year.

Information relating to off-balance sheet arrangements, which for the Company comprise of commitments to extend credit and standby letters of credit, is disclosed in Footnote 13 in the notes to the Company's 2003 audited consolidated financial statements. These transactions are entered into in the ordinary course of providing traditional banking services and are considered in managing the Company's liquidity position. The Company does not expect these commitments to significantly affect the liquidity position in future periods. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options, or similar instruments.

CAPITAL RESOURCES

Shareholders' equity was $126.5 million on December 31, 2003. This represents an increase of $698 thousand or .6% from year-end 2002. During 2003, the Company purchased 101,000 shares of its outstanding common stock for a total cost of $3.2 million. In addition to the increase in net income for 2003, the Company's share buy back program also contributed to the increase in earning per share in the comparison. For 2003, net income increased $402 thousand or 3.2% compared to the prior year while the increase was 5.5% on a per share basis. The Company issued 25,000 shares of common stock during 2003 pursuant to its nonqualified employee stock option plan.

Dividends of $8.7 million or $1.29 per share were declared during 2003. This represents a 3.2% increase on a per share basis compared to the prior year. Accumulated other comprehensive income, which consists of the unrealized holding gain on available for sale securities (net of tax), decreased $1.4 million from year-end 2002 primarily due to the sale of investments during the current year and the increased premium amortization of mortgage-backed investment securities.

Consistent with the objective of operating a sound financial organization, the Company's goal is to maintain capital ratios well above the regulatory minimum requirements. The Company's capital ratios as of December 31, 2003, the regulatory minimums, and the regulatory standard for a well-capitalized institution are as follows.

	Farmers Capital Bank Corporation	Regulatory Minimum	Well Capitalized
Tier 1 risk-based	15.07%	4.00%	6.00%
Total risk-based	16.33	8.00	10.00
Leverage	9.94	4.00	5.00

The capital ratios of each subsidiary bank were in excess of the applicable minimum regulatory capital ratio requirements at December 31, 2003.

The table below is an analysis of dividend payout ratios and equity to asset ratios for the previous five years.

Years Ended December 31,	**2003**	2002	2001	2000	1999
Percentage of dividends declared to net income	66.91%	68.38%	57.70%	59.33%	60.66%
Percentage of average shareholders' equity to average total assets	9.98	10.37	10.75	12.06	12.58

Share Buy Back Program

In January 2003, the Company announced that it intended to purchase up to 300,000 additional shares of its outstanding common stock. This is in addition to the stock purchase plans announced in July 2000 and November 1998 to purchase 500,000 and 400,000 shares, respectively. The Company purchased approximately 101,000 shares during 2003 pursuant to the January, 2003 announcement. Purchases are dependent on market conditions and there is no guarantee as to the exact number of shares to be purchased by the Company. Shares would be used for general corporate purposes. Consistent with the objective of maximizing shareholder value, the Company considers the purchase of its outstanding shares in a given price range to be a good investment of the Company's available funds. At the time of the most recent announcement, the Company had purchased nearly all of the previously authorized shares.

Shareholder Information

As of January 1, 2004, there were 790 shareholders of record. This figure does not include individual participants in security position listings.

Stock Prices

Farmers Capital Bank Corporation's stock is traded on the National Association of Security Dealers Automated Quotation System (NASDAQ) SmallCap Market tier of The NASDAQ Stock Market, with sales prices reported under the symbol: FFKT. The table below lists the stock prices and dividends declared for 2003 and 2002.

Stock Prices

	High	Low	Dividends Declared
2003			
Fourth Quarter	$ 36.50	$ 33.11	$ .33
Third Quarter	34.89	31.67	.32
Second Quarter	33.03	30.88	.32
First Quarter	33.54	30.00	.32
2002			
Fourth Quarter	$ 35.00	$ 32.20	$ .32
Third Quarter	35.25	32.25	.31
Second Quarter	35.99	32.40	.31
First Quarter	37.49	32.50	.31

Dividends declared per share increased $.04 or 3.3% and $.04 or 3.4% for the years 2003 and 2002, respectively.

Recently Issued Accounting Standards

Please refer to the caption "Recently Issued Accounting Standards" in Footnote 1 in the notes to the Company's 2003 audited consolidated financial statements.

2002 Compared to 2001

Consolidated net income for 2002 was $12.6 million, a decrease of $2.1 million or 14.4% compared to $14.7 million for 2001. Diluted net income per share for 2002 was $1.82, a decrease of $.27 or 12.9% from $2.09 reported for 2001. The decrease in net income was due primarily to a decrease in net interest income and an increase in the provision for loan losses. Net interest income decreased $2.1 million or 5.0% for the year ended December 31, 2002 compared to 2001. The decrease in net interest income was due primarily to lower interest rates charged on variable rate earning assets that repriced downward in a declining interest rate environment, refinancing activity by loan customers and issuers of debt securities at lower rates, and the addition of new loan customers borrowing at historic low rates. The Company responded in part by taking advantage of lower borrowing costs, particularly through an increase in long-term fixed rate borrowings. In 2002, the provision for loan losses was $4.7 million, an increase of $2.3 million or 94.0% compared to the prior year. The increase in the provision for loan losses related primarily to a decline in the credit quality of a pool of construction loans secured by residential real estate. The Company continues to actively manage these credits. As a result, this pool of loans has decreased $8.7 million during 2003 to $4.2 million at December 31, 2003. The decrease is due primarily to proceeds attributed to the sale of the underlying real estate collateral.

The return on assets ("ROA") was 1.04% in 2002 compared to 1.28% reported in the prior year. The decrease in ROA is due to a 36 basis point reduction in the net interest margin to 3.92% in 2002 from 4.28% in 2001. The return on equity ("ROE") decreased 189 basis points to 10.04% compared to 11.93% in the prior year. The decline in ROE is a result of the lower reported net income coupled with a $2.1 million increase in the average balance of shareholders' equity.

Management's Report on Responsibility for Financial Reporting

The management of Farmers Capital Bank Corporation has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

Farmers Capital Bank Corporation's 2003 consolidated financial statements have been audited by Crowe Chizek and Company LLC independent accountants. Management has made available to Crowe Chizek and Company LLC all financial records and related data, as well as the minutes of Boards of Directors' meetings. Management believes that all representations made to Crowe Chizek and Company LLC during the audit were valid and appropriate.

Management of Farmers Capital Bank Corporation has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management continually monitors the system of internal control for compliance.

Farmers Capital Bank Corporation maintains an internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. Management has considered the recommendations of the internal audit staff and Crowe Chizek and Company LLC and has taken actions that we believe respond appropriately to these recommendations. Management believes that, as of December 31, 2003 the system of internal control was adequate to accomplish the objectives discussed herein.

G. Anthony Busseni
President and CEO

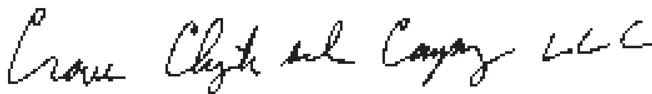
C. Douglas Carpenter
Vice President, Secretary, and CFO

To the Board of Directors and Shareholders of
Farmers Capital Bank Corporation

We have audited the accompanying consolidated balance sheet of Farmers Capital Bank Corporation as of December 31, 2003, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Farmers Capital Bank Corporation as of December 31, 2002 and for each of the two years ended December 31, 2002 were audited by other auditors whose report dated January 17, 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farmers Capital Bank Corporation as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Louisville, Kentucky
January 9, 2004

December 31, (In thousands, except share data)	**2003**	2002
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 99,628	$ 44,083
Interest bearing deposits in other banks	3,154	3,947
Federal funds sold and securities purchased under agreements to resell	24,434	19,071
Total cash and cash equivalents	127,216	67,101
Investment securities:		
Available for sale, amortized cost of $354,905 (2003) and $407,560 (2002)	358,169	413,038
Held to maturity, fair value of $26,201 (2003) and $30,312 (2002)	24,789	28,519
Total investment securities	382,958	441,557
Loans, net of unearned income	755,945	738,639
Allowance for loan losses	(11,292)	(11,061)
Loans, net	744,653	727,578
Premises and equipment, net	24,115	24,155
Company-owned life insurance	25,510	
Other assets	14,113	15,211
Total assets	$ 1,318,565	$ 1,275,602
Liabilities		
Deposits:		
Noninterest bearing	$ 226,650	$ 141,238
Interest bearing	841,672	816,242
Total deposits	1,068,322	957,480
Federal funds purchased and securities sold under agreements to repurchase	56,698	115,979
Other borrowed funds	56,831	66,359
Dividends payable	2,215	2,191
Other liabilities	8,028	7,820
Total liabilities	1,192,094	1,149,829
Shareholders' Equity		
Common stock, par value $.125 per share; 9,608,000 shares authorized; 8,160,919 and 8,135,977 shares issued at December 31, 2003 and 2002, respectively	1,020	1,017
Capital surplus	18,670	17,623
Retained earnings	145,489	141,199
Treasury stock, at cost, 1,444,739 and 1,344,463 shares at December 31, 2003 and 2002, respectively	(40,830)	(37,627)
Accumulated other comprehensive income	2,122	3,561
Total shareholders' equity	126,471	125,773
Total liabilities and shareholders' equity	$ 1,318,565	$ 1,275,602

See accompanying notes to consolidated financial statements.

(In thousands, except per share data) Years Ended December 31,	2003	2002	2001
Interest Income			
Interest and fees on loans	$ 47,896	$ 51,459	$ 59,873
Interest on investment securities:			
Taxable	6,549	10,062	10,466
Nontaxable	3,284	3,534	3,368
Interest on deposits in other banks	63	185	92
Interest on federal funds sold and securities purchased under agreements to resell	621	1,051	3,240
Total interest income	58,413	66,291	77,039
Interest Expense			
Interest on deposits	16,850	22,514	29,716
Interest on federal funds purchased and securities sold under agreements to repurchase	863	1,647	3,927
Interest on other borrowed funds	2,170	1,585	714
Total interest expense	19,883	25,746	34,357
Net interest income	38,530	40,545	42,682
Provision for loan losses	2,592	4,748	2,448
Net interest income after provision for loan losses	35,938	35,797	40,234
Noninterest Income			
Service charges and fees on deposits	7,728	7,898	6,899
Other service charges, commissions, and fees	3,554	3,498	3,650
Data processing income	1,393	1,386	1,385
Trust income	1,610	1,551	1,929
Investment securities gains, net	965	1,433	465
Gains on sale of mortgage loans, net	880	561	461
Income from company-owned life insurance	1,509		
Other	254	309	260
Total noninterest income	17,893	16,636	15,049
Noninterest Expense			
Salaries and employee benefits	20,675	20,025	19,689
Occupancy expenses, net	2,539	2,437	2,391
Equipment expenses	3,793	3,686	3,365
Bank franchise tax	1,336	1,290	1,192
Other	9,159	8,663	8,474
Total noninterest expense	37,502	36,101	35,111
Income before income taxes	16,329	16,332	20,172
Income tax expense	3,366	3,771	5,501
Net income	$ 12,963	$ 12,561	$ 14,671
Net Income Per Common Share			
Basic	$ 1.93	$ 1.83	$ 2.10
Diluted	1.92	1.82	2.09
Weighted Average Shares Outstanding			
Basic	6,727	6,870	6,982
Diluted	6,770	6,910	7,025

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands) Years Ended December 31,	2003	2002	2001
Net Income	$ 12,963	$ 12,561	$ 14,671
Other comprehensive income:			
Unrealized holding (loss) gain on available for sale securities arising during the period on securities held at end of period, net of tax of $113, $1,595, and $472, respectively	(209)	2,962	859
Reclassification adjustment for prior period unrealized gain previously reported in other comprehensive income recognized during current period, net of tax of $662, $337, and $99, respectively	(1,230)	(625)	(192)
Other comprehensive (loss) income	(1,439)	2,337	667
Comprehensive income	$ 11,524	$ 14,898	$ 15,338

See accompanying notes to consolidated financial statements.

(In thousands, except per share data) Years Ended December 31, 2003, 2002, and 2001	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2001	8,032	$ 1,004	$ 13,634	$131,021	860	$(20,755)	$ 557	$ 125,461
Net income				14,671				14,671
Other comprehensive income							667	667
Cash dividends declared, $1.21 per share				(8,465)				(8,465)
Purchase of common stock					293	(10,322)		(10,322)
Stock options exercised, including related tax benefits	26	3	668					671
Noncash compensation expense attributed to stock option grants			877					877
Balance at December 31, 2001	8,058	1,007	15,179	137,227	1,153	(31,077)	1,224	123,560
Net income				12,561				12,561
Other comprehensive income							2,337	2,337
Cash dividends declared, $1.25 per share				(8,589)				(8,589)
Purchase of common stock					191	(6,550)		(6,550)
Stock options exercised	78	10	1,894					1,904
Noncash compensation expense attributed to stock option grants			550					550
Balance at December 31, 2002	8,136	1,017	17,623	141,199	1,344	(37,627)	3,561	125,773
Net income				12,963				12,963
Other comprehensive loss							(1,439)	(1,439)
Cash dividends declared, $1.29 per share				(8,673)				(8,673)
Purchase of common stock					101	(3,203)		(3,203)
Stock options exercised, including related tax benefits	25	3	623					626
Noncash compensation expense attributed to stock option grants			424					424
Balance at December 31, 2003	8,161	$ 1,020	$ 18,670	$145,489	1,445	$(40,830)	$ 2,122	$ 126,471

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, (In thousands)	2003	2002	2001
Cash Flows from Operating Activities			
Net income	$ 12,963	$ 12,561	$ 14,671
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,984	2,890	3,008
Net amortization (accretion) of investment security premiums and discounts:			
Available for sale	3,197	711	(49)
Held to maturity	(68)	(77)	(23)
Provision for loan losses	2,592	4,748	2,448
Noncash compensation expense	424	550	877
Mortgage loans originated for sale	(60,089)	(45,330)	(40,485)
Proceeds from sale of mortgage loans	61,781	45,362	40,179
Deferred income tax (benefit) expense	(294)	561	132
Gains on sale of mortgage loans, net	(880)	(561)	(461)
Loss (gain) on sale of premises and equipment	11	(103)	(12)
Gain on sale of available for sale investment securities, net	(965)	(1,433)	(465)
Decrease in accrued interest receivable	360	967	938
Income from company-owned life insurance	(1,509)		
Decrease (increase) in other assets	1,224	(695)	(636)
Decrease in accrued interest payable	(523)	(399)	(312)
Increase (decrease) in other liabilities	1,318	(419)	378
Net cash provided by operating activities	22,526	19,333	20,188
Cash Flows from Investing Activities			
Proceeds from maturities and calls of investment securities:			
Available for sale	390,850	316,912	296,062
Held to maturity	5,058	9,019	12,646
Proceeds from sale of available for sale investment securities	108,975	172,229	98,411
Purchases of investment securities:			
Available for sale	(449,402)	(589,782)	(489,581)
Held to maturity	(1,260)		(694)
Loans originated for investment, net of principal collected	(20,479)	(40,477)	(19,901)
Purchase of company-owned life insurance	(24,001)		
Purchases of premises and equipment	(2,964)	(2,259)	(2,630)
Proceeds from sale of equipment	9	117	21
Net cash provided by (used in) investing activities	6,786	(134,241)	(105,666)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	110,842	43,995	(55,712)
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(59,281)	2,187	23,788
Proceeds from long-term debt	3,874	48,175	8,000
Repayments of long-term debt	(4,613)	(1,936)	(7,588)
Net (decrease) increase in other borrowed funds	(8,789)	(3,601)	11,631
Dividends paid	(8,649)	(8,550)	(8,468)
Purchase of common stock	(3,203)	(6,550)	(10,322)
Stock options exercised	622	1,904	663
Net cash provided by (used in) financing activities	30,803	75,624	(38,008)
Net increase (decrease) in cash and cash equivalents	60,115	(39,284)	(123,486)
Cash and cash equivalents at beginning of year	67,101	106,385	229,871
Cash and cash equivalents at end of year	$ 127,216	$ 67,101	$ 106,385
Supplemental Disclosures			
Cash paid during the year for:			
Interest	$ 20,406	$ 26,145	$ 34,669
Income taxes	1,400	4,940	5,350
Transfers from loans to repossessed assets	2,626	794	1,810
Cash dividend declared and unpaid	2,215	2,191	2,152

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Farmers Capital Bank Corporation and subsidiaries conform to accounting principles generally accepted in the United States of America and general practices applicable to the banking industry. Significant accounting policies are summarized below.

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Farmers Capital Bank Corporation (the "Company"), a financial holding company, and its wholly-owned six bank and one nonbank subsidiaries. Bank subsidiaries include Farmers Bank & Capital Trust Co. ("Farmers Bank") in Frankfort, KY; United Bank & Trust Co. in Versailles, KY; Lawrenceburg National Bank in Harrodsburg, KY; First Citizens Bank in Shepherdsville, KY; Farmers Bank and Trust Company in Georgetown, KY; and Kentucky Banking Centers, Inc. in Glasgow, KY. The Company's nonbank subsidiary is FCB Services, Inc., a data processing subsidiary located in Frankfort, KY. Intercompany transactions and balances are eliminated in consolidation. Leasing One Corporation and Farmers Capital Insurance Corporation are wholly-owned subsidiaries of Farmers Bank.

The Company provides financial services through its 23 locations throughout Central Kentucky to individual, business, agriculture, government, and educational customers. Its primary deposit products are checking, savings, and term certificate accounts. Its primary lending products are residential mortgage, commercial lending and leasing, and installment loans. Substantially all loans and leases are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans and leases are expected to be repaid from cash flow from operations of businesses. Farmers Bank has served as the general depository for the Commonwealth of Kentucky for over 70 years and also provides investment and other services to the Commonwealth. Other services include, but are not limited to, cash management services, issuing letters of credit, safe deposit box rental, and providing funds transfer services. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates used in the preparation of the financial statements are based on various factors including the current interest rate environment and the general strength of the local economy. Changes in the overall interest rate environment can significantly affect the Company's net interest income and the value of its recorded assets and liabilities. Actual results could differ from those estimates used in the preparation of the financial statements. The allowance for loan losses and the fair values of financial instruments are estimates that are particularly subject to change.

Reclassifications

Certain amounts in the accompanying consolidated financial statements presented for prior years have been reclassified to conform to the 2003 presentation. These reclassifications do not affect net income or total shareholders' equity as previously reported.

Segment Information

The Company provides a broad range of financial services to individuals, corporations, and others through its 23 banking locations throughout Central Kentucky. These services primarily include the activities of lending and leasing, receiving deposits, providing cash management services, safe deposit box rental, and trust activities. Operations are managed and financial performance is evaluated at the subsidiary level. The Company's chief decision makers monitor the results of the various banking products and services of its subsidiaries. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable operating segment: commercial and retail banking.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the following: cash on hand, amounts due from banks, interest bearing demand deposits in other banks, federal funds sold and securities purchased under agreements to resell. Generally, federal funds sold and securities purchased under agreements to resell are purchased and sold for one-day periods. Net cash flows are reported for loan and deposit transactions.

Investment Securities

Investments in debt and equity securities are classified into three categories. Securities that management has the positive intent and ability to hold until maturity are classified as held to maturity. Securities that are bought and held specifically for the purpose of selling them in the near term are classified as trading securities. The Company currently does not have any securities classified as trading. All other securities are classified as available for sale. Securities are designated as available for sale if management intends to use such securities in its asset/liability management strategy; and, therefore such securities may be sold in response to changes in interest rates and prepayment risk. Securities classified as trading and available for sale are carried at market value. Unrealized holding gains and losses for trading securities are included in current income. Unrealized holding gains and losses for available for sale securities are reported net of income taxes in other comprehensive income until realized. Investments classified as held to maturity are carried at amortized cost. Interest income includes

1. Summary of Significant Accounting Policies (continued)

amortization and accretion of purchase premiums or discounts. Realized gains and losses on any sales of securities are computed on the basis of specific identification of the adjusted cost of each security and are included in noninterest income. A decline in the market value of any available for sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. Federal Home Loan Bank ("FHLB") stock is carried at cost.

Loans and Interest Income

Loans are reported at their principal amount outstanding adjusted for any charge-offs and any deferred fees or costs on originated loans. Interest income on loans is recognized using the interest method based on loan principal amounts outstanding during the period, except interest on certain consumer installment loans recognized using the sum-of-the-months digits method, which does not differ materially from the interest method. Net fees and incremental direct costs associated with loan origination are deferred and amortized as yield adjustments over the respective loan terms. Generally, the accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed for 90 days or more, unless such loan is well secured and in the process of collection. Cash payments received on nonaccrual loans generally are applied to principal, and interest income is only recorded once principal recovery is assured. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale

The Company's operations include a limited amount of mortgage banking. Mortgage banking activities include the origination of residential mortgage loans for sale to various investors. Mortgage loans originated and intended for sale in the secondary market, principally under programs with the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and other commercial lending institutions, are carried at the lower of cost or estimated market value and included in net loans on the balance sheet. Mortgage loans held for sale totaled $455 thousand and $1.3 million at December 31, 2003 and December 31, 2002, respectively. Mortgage banking revenues, including origination fees, servicing fees, net gains or losses on sales of mortgages, and other fee income were 1.2%, .8%, and .6% of the Company's total revenue for the years ended December 31, 2003, 2002, and 2001.

Provision and Allowance for Loan Losses

The provision for loan losses represents charges made to earnings to maintain an allowance for loan losses at an adequate level based on credit losses specifically identified in the loan portfolio, as well as management's best estimate of probable losses in the remainder of the portfolio at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, an assessment of the financial condition of individual borrowers, a determination of the value and adequacy of underlying collateral, the condition of the local economy, an analysis of the levels and trends of the loan portfolio, and a review of delinquent and classified loans. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Actual loan losses could differ significantly from the amounts estimated by management.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current risk factors.

The Company accounts for impaired loans in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition*. SFAS No. 114, as amended, requires that impaired loans be measured at the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent. Generally, impaired loans are also in nonaccrual status. In certain circumstances, however, the Company may continue to accrue interest on an impaired loan. Cash receipts on impaired loans are applied to the recorded investment in the loan, including any accrued interest receivable. Loans that are part of a large group of smaller-balance homogeneous loans, such as residential mortgage and consumer loans, are collectively evaluated for impairment

Other Real Estate

Other real estate owned and held for sale, included with other assets in the accompanying consolidated balance sheets, includes properties acquired by the Company through actual loan foreclosures. Other real estate owned is carried at the lower of cost or fair value less estimated costs to sell. Fair value is the amount that the Company could reasonably expect to receive in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. Fair value of assets is measured by the market value based on comparable sales. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

1. Summary of Significant Accounting Policies (continued)

Income Taxes
Deferred income tax assets and liabilities result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the income tax expense.

Premises and Equipment
Premises, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is computed primarily on the straight-line method over the estimated useful lives for furniture, equipment, and buildings. These useful lives range from 2 to 50 years. Leasehold improvements are amortized over the shorter of the estimated useful lives or terms of the related leases on the straight-line method. Maintenance, repairs, and minor improvements are charged to operating expenses as incurred and major improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income. Land is carried at cost.

Company-owned Life Insurance
The Company has purchased life insurance policies on certain key employees with their knowledge and consent. Company-owned life insurance is recorded at its cash surrender value, i.e. the amount that can be realized, on the consolidated balance sheet. The related change in cash surrender value and proceeds received under the policies are reported on the consolidated statement of income under the caption "Income from company-owned life insurance".

Net Income Per Common Share
Basic net income per common share is determined by dividing net income by the weighted average total number of shares of common stock outstanding. Diluted net income per common share is determined by dividing net income by the total weighted average number of shares of common stock outstanding, plus the total weighted average number of shares that would be issued upon exercise of dilutive stock options assuming proceeds are used to repurchase shares pursuant to the treasury stock method. Net income per common share computations were as follows at December 31, 2003, 2002, and 2001:

(In thousands, except per share data) Years Ended December 31,	**2003**	2002	2001
Net income, basic and diluted	$ 12,963	$ 12,561	$ 14,671
Average shares outstanding	6,727	6,870	6,982
Effect of dilutive stock options	43	40	43
Average diluted shares outstanding	6,770	6,910	7,025
Net income per share, basic	$ 1.93	$ 1.83	$ 2.10
Net income per share, diluted	1.92	1.82	2.09

Comprehensive Income
SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. For the Company, this includes net income and net unrealized gains and losses on available for sale investment securities.

Treasury Stock
The purchase of the Company's common stock is recorded at cost.

Stock-Based Compensation
In 1997, the Company's Board of Directors approved a nonqualified stock option plan that provides for granting of stock options to key employees and officers of the Company. The plan was subsequently ratified by the Company's shareholders at its annual shareholders' meeting held on May 12, 1998, the measurement date of the plan. All stock options are awarded at a price equal to the fair market value of the Company's common stock at the date the options are granted. The Company applies Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its plan. Accordingly, since options were granted during 1997 at the fair market value of the Company's stock on the grant date, and the measurement date occurred during 1998, the Company recognizes noncash compensation expense based on the intrinsic value of the stock options measured on the date of shareholder ratification of the plan.

1. Summary of Significant Accounting Policies (continued)

The Company granted 54,000 additional options during 2000 in which there is no compensation expense being recognized pursuant to APB No. 25. Had compensation expense been determined under the fair value method described in SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income and income per common share would have been as shown in the table below.

(In thousands, except per share data) Years Ended December 31,	**2003**	2002	2001
Net Income			
As reported	$ 12,963	$ 12,561	$ 14,671
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	276	358	570
Less: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(336)	(424)	(649)
Proforma	$ 12,903	$ 12,495	$ 14,592
Net Income Per Common Share			
Basic, as reported	$ 1.93	$ 1.83	$ 2.10
Basic, proforma	1.92	1.82	2.09
Diluted, as reported	1.92	1.82	2.09
Diluted, proforma	1.91	1.81	2.08

The fair value of the options granted are estimated as of the measurement date using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2000 and 1997, respectively: dividend yield of 3.12% and 3.18%; expected volatility of 29.6% and 23.4%; risk-free interest rate of 6.71% and 5.75%; and expected life of seven years for both grants. The weighted average fair value of options granted during 2000 and 1997 was $9.25 and $16.11 per share, respectively.

The plan provides for the granting of options to purchase up to 450,000 shares of the Company's common stock at a price equal to the fair market value of the Company's common stock on the date the option is granted. The term of the options expires after ten years from the date on which the options are granted. Options granted under the plan vest ratably over various time periods ranging from four to seven years. All options granted must be held for a minimum of one year before they can be exercised. Forfeited options are available for the granting of additional stock options under the plan.

Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 expands disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 applies to most types of guarantees except for, among others, guarantees relating to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, and guarantees of a company's own future performance. Historically, the guarantor has not recorded guarantees until it was probable that a payment would be required under the guarantee. The new accounting requirements now require a guarantor to record a liability at its fair value at the time the guarantee is made. Certain guarantees are subject to the disclosure requirements of FIN 45, but not to its recognition provisions. These guarantees include, but are not limited to, guarantees treated as derivatives under SFAS No. 133, guarantees that are considered contingent consideration in a business combination, and guarantees issued between parent corporations and their subsidiaries or between entities under common control. The new disclosure requirements require a guarantor to disclose the following about each guarantee: the overall details of the guarantee, the maximum potential amount of future payments that could be required, the carrying amount of the guarantor's obligation under the guarantee, the fair value of the liability included in the statement of financial position, and the nature and extent of recourse provisions and collateral related to the guarantee and the extent of any potential amounts that the guarantor may recover from third parties as a result of payments made under the guarantee.

The new accounting requirements are to be applied prospectively to any guarantees issued or modified after December 31, 2002. The new disclosure requirements are applicable to all guarantees covered by this interpretation, no matter when issued, and are effective for interim or annual financial statements for periods ending after December 15, 2002. Additional information related to the Company's significant guarantees is disclosed in Footnote 13 in the notes to the Company's 2003 audited consolidated financial statements. The adoption of FIN 45 did not have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. This Interpretation provides new guidance for the consolidation of variable interest entities ("VIEs") and requires such entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among parties involved. The Interpretation also adds disclosure requirements for investors that are involved with unconsolidated VIEs. The consolidation requirements apply immediately to VIEs created after January 31, 2003 and are effective for the first fiscal year or interim period ending after December 15, 2003 for VIEs acquired before

1. Summary of Significant Accounting Policies (continued)

February 1, 2003. The adoption of this interpretation did not have a significant impact on the Company's financial condition or results of operations.

In April 2003, The FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement is effective for contracts entered into or modified after June 30, 2003. Because the Company does not have these instruments or is only nominally involved in these instruments, the adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This statement affects the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. This statement requires that freestanding financial instruments that embody obligations for the issuer be classified as liabilities on the balance sheet. Most of this statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. In November 2003, the FASB deferred certain provisions of SFAS No. 150 to an undeterminable date. Because the Company does not have these instruments or is only nominally involved in these instruments, the adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*. This statement revises employers' disclosures about pension plans and other postretirement benefit plans. This statement retains the disclosure requirements contained in SFAS No. 132 and requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined pension plans and other defined benefit postretirement plans. Most of this statement is effective for financial statements with fiscal years ending after December 15, 2003. Certain other disclosure requirements are effective for financial statements with fiscal years ending after June 15, 2004. The adoption of this statement did not have a material effect on the Company's consolidated financial statements. The Company has made the additional disclosures required for 2003 and will provide the additional required disclosures according to required implementation dates.

2. Investment Securities

The following summarizes the amortized cost and estimated fair values of the securities portfolio at December 31, 2003. The summary is divided into available for sale and held to maturity securities.

December 31, 2003 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale				
Obligations of U.S. Government agencies	$ 130,914	$ 224	$ 118	$ 131,020
Obligations of states and political subdivisions	71,274	2,518	141	73,651
Mortgage-backed securities	146,539	1,300	729	147,110
Equity securities	6,178	210		6,388
Total securities – available for sale	$ 354,905	$ 4,252	$ 988	$ 358,169
Held to Maturity				
Obligations of states and political subdivisions	24,718	1,407		26,125
Mortgage-backed securities	71	5		76
Total securities – held to maturity	$ 24,789	$ 1,412	$ 0	$ 26,201

2. Investment Securities (continued)

The following summarizes the amortized cost and estimated fair values of the securities portfolio at December 31, 2002.

December 31, 2002 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale				
Money market mutual funds	$ 35,021			$ 35,021
Obligations of U.S. Government agencies	161,300	$ 571	$ 4	161,867
Obligations of states and political subdivisions	49,525	2,031		51,556
Mortgage-backed securities	145,554	2,890	37	148,407
Corporate debt	10,259			10,259
Equity securities	5,901	72	45	5,928
Total securities – available for sale	$ 407,560	$ 5,564	$ 86	$ 413,038
Held to Maturity				
Obligations of U.S. Government agencies	$ 100	$ 2		$ 102
Obligations of states and political subdivisions	28,242	1,781		30,023
Mortgage-backed securities	177	10		187
Total securities – held to maturity	$ 28,519	$ 1,793	$ 0	$ 30,312

The amortized cost and estimated fair value of the securities portfolio at December 31, 2003, by contractual maturity, are detailed below. The summary is divided into available for sale and held to maturity securities. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities in the available for sale portfolio consist primarily of restricted FHLB stock and investments in unrelated financial institution stocks, which have no stated maturity and are not included in the maturity schedule that follows. Mortgage-backed securities are stated separately due to the nature of payment and prepayment characteristics of these securities.

	Available for Sale		Held to Maturity	
December 31, 2003 (In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 46,671	$ 46,679	$ 3,923	$ 3,986
Due after one year through five years	90,699	91,179	18,065	19,278
Due after five years through ten years	46,576	48,046	1,340	1,461
Due after ten years	18,242	18,767	1,390	1,400
Mortgage-backed securities	146,539	147,110	71	76
Total	$ 348,727	$ 351,781	$ 24,789	$ 26,201

Gross gains of approximately $965,000, $1,529,000, and $467,000 for 2003, 2002, and 2001, respectively, were realized on the sale of investment securities. Gross losses of approximately $0, $96,000, and $2,000 were realized during 2003, 2002, and 2001, respectively.

Investment securities with a carrying value of $244,817,000 and $259,965,000 at December 31, 2003 and 2002 were pledged to secure public and trust deposits, repurchase agreements, and for other purposes.

Investment securities with unrealized losses at year-end 2003 not recognized in income are presented in the table below. The table segregates investment securities that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or more. The table also includes the fair value of the related securities.

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies	$ 51,565	$ 118			$ 51,565	$ 118
Obligations of states and political subdivisions	10,768	141			10,768	141
Mortgage-backed securities	73,199	727	$ 90	$ 2	73,289	729
Total	$ 135,532	$ 986	$ 90	$ 2	$ 135,622	$ 988

Unrealized losses included in the table above have not been recognized in income since they have been identified as temporary. Factors considered in assessing whether unrealized losses are other-than-temporary include, but are not limited to, independent credit ratings of the issuer and the Company's intent and ability to hold the investment for the foreseeable future. The Company attributes the unrealized losses mainly to changes in market interest rates and does not expect to incur a loss unless the securities are sold. As the securities approach their maturity date, their fair value is expected to recover. A decline in certain market interest rates could also favorably impact fair values.

3. Loans

Major classifications of loans are summarized as follows.

December 31, (In thousands)	2003	2002
Commercial, financial, and agricultural	$ 110,657	$ 110,056
Real estate — construction	45,390	55,896
Real estate — residential	270,638	251,185
Real estate — farmland and other commercial enterprises	222,100	208,435
Installment loans	71,582	76,185
Lease financing	39,834	41,847
Total loans	760,201	743,604
Less unearned income	(4,256)	(4,965)
Total loans, net of unearned income	$ 755,945	$ 738,639

Loans to directors, executive officers, and principal shareholders (including loans to affiliated companies of which directors, executive officers, and principal shareholders are principal owners) and loans to members of the immediate family of such persons were $15,235,000 and $14,604,000 at December 31, 2003 and 2002, respectively. Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers and did not involve more than the normal risk of collectability. An analysis of the activity with respect to these loans follows.

(In thousands)	Amount
Balance, December 31, 2002	$ 14,604
New loans	9,941
Repayments	(10,034)
Loans no longer meeting disclosure requirements and other adjustments	724
Balance, December 31, 2003	$ 15,235

4. Allowance for Loan Losses

The Company's recorded investment in impaired loans, measured using the fair value of collateral method as defined in SFAS No. 114, was $4,753,000 at December 31, 2003 and $15,363,000 at December 31, 2002. Those amounts also represent loans for which an allowance for loan losses totaling $79,000 and $321,000 for 2003 and 2002, respectfully, has been established. For the years ended December 31, 2003 and 2002, the recorded investment in impaired loans averaged $10,860,000 and $16,525,000, respectively. Interest income recognized on impaired loans totaled $55,000, $268,000, and $113,000 for the years 2003, 2002, and 2001, respectively.

The Company's charge-off policy for impaired loans does not differ from the charge-off policy for loans outside the definition of SFAS No. 114. Loans that are delinquent in excess of 120 days are charged off unless the borrower continues to maintain a satisfactory financial standing and/or the collateral securing the debt is of such value that any loss appears to be unlikely.

An analysis of the allowance for loan losses follows.

Years Ended December 31, (In thousands)	2003	2002	2001
Balance, beginning of year	$ 11,061	$ 10,549	$ 10,249
Provisions for loan losses	2,592	4,748	2,448
Recoveries	426	371	777
Loans charged off	(2,787)	(4,607)	(2,925)
Balance, end of year	$ 11,292	$ 11,061	$ 10,549

Nonperforming loans were as follows.

Years Ended December 31, (In thousands)	2003	2002
Nonaccrual loans	$ 5,258	$ 15,681
Loans past due 90 days or more and still accruing	3,856	3,624
Total nonperforming loans	$ 9,114	$ 19,305

5. Premises and Equipment

Premises and equipment consist of the following.

December 31, (In thousands)	**2003**	2002
Land, buildings, and leasehold improvements	$ 32,237	$ 31,347
Furniture and equipment	17,626	17,652
Total premises and equipment	49,863	48,999
Less accumulated depreciation and amortization	(25,748)	(24,844)
Premises and equipment, net	$ 24,115	$ 24,155

Depreciation and amortization of premises and equipment was $2,984,000, $2,890,000, and $2,737,000 in 2003, 2002, and 2001, respectively.

6. Deposit Liabilities

Time deposits of $100,000 or more at December 31, 2003 and 2002 were $115,655,000 and $108,237,000, respectively. Interest expense on time deposits of $100,000 or more was $3,554,000, $3,894,000, and $4,616,000 for 2003, 2002, and 2001, respectively.

At December 31, 2003 the scheduled maturities of time deposits were as follows.

(In thousands)	Amount
2004	$ 238,177
2005	94,909
2006	63,616
2007	10,284
2008	6,854
Thereafter	8,737
Total	$ 422,577

7. Federal Funds Purchased, Securities Sold Under Agreements to Repurchase, and Other Borrowed Funds

Federal funds purchased and securities sold under agreements to repurchase represent borrowings by the Company that generally mature one business day following the date of the transaction. Information pertaining to such borrowings is as follows.

December 31, (Dollars in thousands)	**2003**	2002
Average balance during the year	$ 70,242	$ 92,912
Average interest rate during the year	1.23%	1.77%
Maximum month-end balance during the year	$ 133,150	$ 145,442

The table below displays a summary of the ending balance and average rate for borrowed funds on the dates indicated. For FHLB advances, the subsidiary banks pledge FHLB stock and fully disbursed, otherwise unencumbered, 1-4 family first mortgage loans as collateral for these advances as required by the FHLB.

December 31, (Dollars in thousands)	**2003**	Average Rate	2002	Average Rate
Short-term				
Federal funds purchased and securities sold under agreements to repurchase	$ 56,698	1.06%	$ 115,979	1.17%
FHLB advances			8,400	1.57
Other	418	.97	807	1.17
Total short-term	$ 57,116	1.06%	$ 125,186	1.19%
Long-term				
FHLB advances	$ 55,511	3.62%	$ 57,100	3.69%
Other	902	2.32	52	4.12
Total long-term	$ 56,413	3.60%	$ 57,152	3.69%

FHLB advances are made pursuant to several different credit programs, which have their own interest rates and range of maturities. Interest rates on FHLB advances are generally fixed and range between 2.01% and 5.22% over a maturity period of up to 20 years. Approximately $25.5 million of the total long-term advances from FHLB are convertible to a floating interest rate following initial fixed rate terms ranging from one to two years. Once the initial fixed rate term expires, the advances may convert to a floating interest rate indexed to LIBOR only if LIBOR equals or exceeds 7%.

7. Federal Funds Purchased, Securities Sold Under Agreements to Repurchase, and Other Borrowed Funds (continued)

Maturities of long-term borrowings at December 31, 2003 are as follows.

(In thousands)	Amount
2004	$ 9,347
2005	7,596
2006	12,049
2007	11,794
2008	682
Thereafter	14,945
Total	$ 56,413

8. Income Taxes

The components of income tax expense are as follows.

December 31, (In thousands)	**2003**	2002	2001
Currently payable	$ 3,660	$ 3,210	$ 5,369
Deferred income taxes	(294)	561	132
Total applicable to operations	3,366	3,771	5,501
Charged to components of shareholders' equity:			
Net unrealized securities (losses) gains	(775)	1,258	373
Total income taxes	$ 2,591	$ 5,029	$ 5,874

An analysis of the difference between the effective income tax rates and the statutory federal income tax rate follows.

December 31, (In thousands)	**2003**	2002	2001
Federal statutory rate	35.0%	35.0%	35.0%
Changes from statutory rates resulting from:			
Tax exempt interest	(8.6)	(9.6)	(7.3)
Nondeductible interest to carry municipal obligations	.6	.9	.9
Amortization of intangibles			.5
Tax credits	(4.0)	(3.8)	(1.9)
Company-owned life insurance	(2.4)		
Other, net		.6	
Effective tax rate	20.6%	23.1%	27.2%

The tax effects of the significant temporary differences which comprise deferred tax assets and liabilities at December 31, 2003 and 2002 follows.

December 31, (In thousands)	**2003**	2002
Assets		
Allowance for loan losses	$ 3,952	$ 3,871
Deferred directors' fees	127	127
Postretirement benefit obligations	824	658
Stock options	1,285	1,218
Commission	216	
Self-funded insurance	168	140
Other	71	15
Total deferred tax assets	6,643	6,029
Liabilities		
Depreciation	1,382	1,362
Investment securities	1,017	938
Deferred loan fees	1,087	1,044
Lease financing operations	2,691	2,513
Unrealized gains on investment securities, net	1,142	1,917
Total deferred tax liabilities	7,319	7,774
Net deferred tax liability	$ (676)	$ (1,745)

8. Income Taxes (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2003.

9. Retirement Plans

Prior to April 1, 2003, the Company and its subsidiaries maintained a pension plan and a salary savings plan. The pension plan had two components which were the Money Purchase Pension Plan and the Employee Stock Ownership Plan ("ESOP"). Effective April 1, 2003 the money purchase component was moved to the salary savings plan.

The Company may at its discretion contribute an amount (up to the maximum imposed by federal law) to the ESOP which will be allocated to all participants in the ratio that each participant's compensation bears to all participants' compensation. Such discretionary contributions will be utilized to purchase shares of the Company's common stock to be held in the participants' accounts. There were no contributions to the ESOP in any of the years in the three-year period ended December 31, 2003. The fair market value of Company shares held by the ESOP was $2,431,000 and $2,442,000 at year-end December 31, 2003 and 2002, respectively.

The Company's salary savings plan covers substantially all employees. The Company matches all eligible voluntary tax deferred employee contributions up to 4% of the participant's compensation. The Company may, at the discretion of the Board, contribute an additional amount based upon a percentage of covered employees' salaries. The Company made a 4% discretionary contribution to the plan during each of the years in the three-year period ended December 31, 2003. Discretionary contributions are allocated among participants in the ratio that each participant's compensation bears to all participants' compensation. Eligible employees are presented with various investment alternatives related to the salary savings plan. Those alternatives include various stock and bond mutual funds that vary from traditional growth funds to more stable income funds. Company shares are not an available investment alternative in the salary savings plan.

The total retirement plan expense for 2003, 2002, and 2001 was $1,017,000, $1,014,000, and 764,000, respectively.

10. Common Stock Options

As described at Footnote 1 of the Company's audited consolidated financial statements, the Company recognizes noncash compensation expense attributed to its stock option plan in accordance with APB No. 25 and related interpretations. The amount of such expense recorded in 2003, 2002, and 2001, net of tax, was $276,000, $358,000, and $570,000, respectively. Approximate future noncash compensation expense related to the Company's stock option plan, net of tax and unadjusted for future forfeitures, is scheduled to be $141,000 during 2004 and zero thereafter since the vesting period on options resulting in expense ends in 2004.

A summary of the status of the Company's stock option plan as of December 31, 2003, 2002, and 2001 and changes during the years ended on those dates is presented below.

	2003		2002		2001	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at January 1	278,436	$ 25.42	369,436	$ 25.19	409,843	$ 25.17
Forfeited	(572)	24.50	(13,267)	24.50	(13,715)	24.84
Exercised	(24,942)	24.92	(77,733)	24.50	(26,692)	25.16
Outstanding at December 31	252,922	$ 25.47	278,436	$ 25.42	369,436	$ 25.19

	2003		2002		2001	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Exercisable	204,136	$ 24.98	190,531	$ 24.87	233,212	$ 24.63

The exercise price range of outstanding options at December 31, 2003 was $24.50 to $29.75 and the weighted average contractual life was 4.2 years.

11. Postretirement Benefits

Prior to 2003, the Company provided lifetime medical and dental benefits upon retirement for certain retired employees meeting the eligibility requirements as of December 31, 1989. During 2003, the Company implemented an additional postretirement health insurance program. Under the new postretirement health insurance plan, any employee meeting the service requirements of 20 years of full time service to the Company and is at least age 55 upon retirement will be eligible to continue their health insurance coverage. The coverage offered to eligible retiree's will be identical to the coverage that is offered to active employees. The retiree will pay 50% of the cost and the Company will pay 50%. The Company pays for the entire costs of the benefits under the first plan. Both plans are unfunded.

The following schedules set forth a reconciliation of the changes in the plans benefit obligation and funded status for the periods ended December 31, 2003 and 2002.

(In thousands)	**2003**	2002
Reconciliation of Benefit Obligation		
Obligation at beginning of year	$ 3,046	$ 2,419
Service cost	108	2
Interest cost	313	175
Prior service cost	2,373	
Actuarial loss	934	686
Benefit payments	(273)	(236)
Obligation at end of year	$ 6,501	$ 3,046
Funded Status (plan assets less benefit obligations)		
Accumulated postretirement benefit obligation	$ (6,501)	$ (3,046)
Unrecognized transition obligation	913	1,015
Unrecognized prior service cost	2,431	255
Unrecognized net actuarial loss (gain)	832	(102)
Accrued postretirement benefit costs	$ (2,325)	$ (1,878)

The following table provides disclosure of the net periodic benefit cost as of December 31.

(In thousands)	**2003**	2002
Service cost	$ 108	$ 2
Interest cost	313	175
Amortization of transition obligation	101	101
Recognized prior service cost	198	42
Amortization of net gain		(52)
Net periodic benefit cost	$ 720	$ 268
Major assumptions:		
Discount rate	6.25%	6.50%

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. For measurement purposes, the rate of increase in pre-Medicare medical care claims costs was 10% in 2004 grading down by 1% to 5% for 2009 and thereafter. For Medicare Supplement claims costs, it was 8% in 2004 grading down by 1% to 5% for 2007 and thereafter. For dental claims cost, it was 5% for 2004 and thereafter. A 1% change in the assumed health care cost trend rates would have the following incremental effects:

(In thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 69,407	$ (55,108)
Effect on postretirement benefit obligation	876,241	(723,542)

On December 8, 2003 President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act into law. This law includes a prescription drug benefit under Medicare and provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefits established by the new law. The effects of this law on the Company's postretirement benefits plans are being reviewed. However, significant uncertainties exist. The Company expects that this law will not have an impact on the postretirement plan implemented during 2003 since this plan provides for a Medicare supplement without prescription drug coverage. The impact of this law, if any, will most likely be attributed to the Company's postretirement plan in effect prior to 2003. Due to the uncertainties that exist, the Company has elected to defer recognizing the effects of the new law in the accounting for its plans under SFAS No. 106. Therefore, the benefit obligations and net periodic benefit costs in the consolidated financial statements and accompanying notes presented do not reflect the effects of the new law. Specific authoritative guidance on the accounting for the federal subsidy is still pending and that guidance, when issued, could require the Company to change previously reported information.

12. Leases

The Company leases certain branch sites and certain banking equipment under various operating leases. All of the branch site leases have renewal options of varying lengths and terms. The aggregate minimum rental commitments under these leases are not material to the financial statements taken as a whole.

13. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The financial instruments include commitments to extend credit and standby letters of credit.

These financial instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Total commitments to extend credit were $123,714,000 and $119,192,000 at December 31, 2003 and 2002, respectively. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit, if deemed necessary by the Company, is based on management's credit evaluation of the counter party. Collateral held varies, but may include accounts receivable, marketable securities, inventory, premises and equipment, residential real estate, and income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that received when extending credit to customers. The fair value of these intruments is not considered material for disclosure under FIN 45. The Company had $6,702,000 and $5,638,000 in irrevocable letters of credit outstanding at December 31, 2003 and 2002, respectively.

The majority of the Company's unfunded commitments are variable rate commitments. Approximately 32% of the Company's unfunded commitments have fixed rates for year-end 2003.

14. Concentration of Credit Risk

The Company's bank subsidiaries actively engage in lending, primarily in their home counties and adjacent areas. Collateral is received to support these loans when deemed necessary. The more significant categories of collateral include cash on deposit with the Company's banks, marketable securities, income producing property, home mortgages, and consumer durables. Loans outstanding, commitments to make loans, and letters of credit range across a large number of industries and individuals. The obligations are significantly diverse and reflect no material concentration in one or more areas.

15. Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. As of December 31, 2003, there were various pending legal actions and proceedings against the Company arising from the normal course of business and in which claims for damages are asserted. Management, after discussion with legal counsel, believes that these actions are without merit and that the ultimate liability resulting from these legal actions and proceedings, if any, will not have a material effect upon the consolidated financial statements of the Company.

16. Regulatory Matters

Payment of dividends by the Company's subsidiary banks is subject to certain regulatory restrictions as set forth in national and state banking laws and regulations. Generally, capital distributions are limited to undistributed net income for the current and prior two years. At December 31, 2003, combined retained earnings of the subsidiary banks were approximately $42,089,000 of which $2,242,000 was available for the payment of dividends in 2004 without obtaining prior approval from bank regulatory agencies.

Included in cash and due from banks is certain noninterest bearing deposits that are held at the Federal Reserve Bank and correspondent banks in accordance with regulatory reserve requirements specified by the Federal Reserve Board of Governors. The reserve requirement was $12,251,000 and $12,171,000 at December 31, 2003 and 2002, respectively.

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements will initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the banks must meet specific capital guidelines that involve quantitative measures of the banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and its

16. Regulatory Matters (continued)

subsidiary banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiary banks to maintain minimum amounts and ratios (set forth in the tables below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). The Company and each of the subsidiary banks meet all capital adequacy requirements to which they are subject as of December 31, 2003.

As of December 31, 2003, the most recent notification from the FDIC categorized the banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the tables. There are no conditions or events since that notification that management believes have changed the institutions' category.

The capital amounts and ratios of the consolidated Company and the banks are presented in the following tables.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2003 (Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 124,349	15.07%	$ 33,008	4.00%	$ 49,511	6.00%
Farmers Bank & Capital Trust Co.	33,251	11.11	11,968	4.00	17,952	6.00
Farmers Bank and Trust Company	13,652	10.34	5,283	4.00	7,925	6.00
Lawrenceburg National Bank	10,645	10.88	3,915	4.00	5,872	6.00
First Citizens Bank	11,527	10.77	4,282	4.00	6,423	6.00
United Bank & Trust Co.	11,033	10.62	4,156	4.00	6,234	6.00
Kentucky Banking Centers, Inc.	8,873	10.41	3,408	4.00	5,113	6.00
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 134,770	16.33%	$ 66,015	8.00%	$ 82,519	10.00%
Farmers Bank & Capital Trust Co.	36,992	12.36	23,936	8.00	29,920	10.00
Farmers Bank and Trust Company	15,306	11.59	10,567	8.00	13,209	10.00
Lawrenceburg National Bank	11,872	12.13	7,830	8.00	9,787	10.00
First Citizens Bank	12,866	12.02	8,564	8.00	10,706	10.00
United Bank & Trust Co.	12,334	11.87	8,312	8.00	10,390	10.00
Kentucky Banking Centers, Inc.	9,940	11.67	6,817	8.00	8,521	10.00
Tier 1 Capital (to Average Assets)						
Consolidated	$ 124,349	9.94%	$ 50,030	4.00%	$ 62,537	5.00%
Farmers Bank & Capital Trust Co.	33,251	6.06	21,965	4.00	27,456	5.00
Farmers Bank and Trust Company	13,652	6.82	8,008	4.00	10,010	5.00
Lawrenceburg National Bank	10,645	7.69	5,538	4.00	6,922	5.00
First Citizens Bank	11,527	7.37	6,257	4.00	7,822	5.00
United Bank & Trust Co.	11,033	7.29	6,051	4.00	7,564	5.00
Kentucky Banking Centers, Inc.	8,873	7.95	4,466	4.00	5,582	5.00

16. Regulatory Matters (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2002 (Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 122,212	14.83%	$ 32,953	4.00%	$ 49,430	6.00%
Farmers Bank & Capital Trust Co.	51,011	15.21	13,419	4.00	20,128	6.00
Farmers Bank and Trust Company	16,361	12.30	5,322	4.00	7,983	6.00
Lawrenceburg National Bank	11,421	12.76	3,581	4.00	5,372	6.00
First Citizens Bank	12,745	12.44	4,100	4.00	6,149	6.00
United Bank & Trust Co.	12,419	12.63	3,933	4.00	5,900	6.00
Kentucky Banking Centers, Inc.	8,143	10.58	3,079	4.00	4,619	6.00
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 132,531	16.09%	$ 65,907	8.00%	$ 82,383	10.00%
Farmers Bank & Capital Trust Co.	54,894	16.36	26,837	8.00	33,547	10.00
Farmers Bank and Trust Company	18,026	13.55	10,644	8.00	13,306	10.00
Lawrenceburg National Bank	12,543	14.01	7,162	8.00	8,953	10.00
First Citizens Bank	14,028	13.69	8,199	8.00	10,249	10.00
United Bank & Trust Co.	13,651	13.88	7,866	8.00	9,833	10.00
Kentucky Banking Centers, Inc.	9,107	11.83	6,159	8.00	7,698	10.00
Tier 1 Capital (to Average Assets)						
Consolidated	$ 122,212	10.13%	$ 48,254	4.00%	$ 60,318	5.00%
Farmers Bank & Capital Trust Co.	51,011	9.21	22,162	4.00	27,703	5.00
Farmers Bank and Trust Company	16,361	8.75	7,482	4.00	9,353	5.00
Lawrenceburg National Bank	11,421	8.71	5,247	4.00	6,558	5.00
First Citizens Bank	12,745	8.61	5,920	4.00	7,401	5.00
United Bank & Trust Co.	12,419	8.57	5,794	4.00	7,243	5.00
Kentucky Banking Centers, Inc.	8,143	8.21	3,967	4.00	4,959	5.00

17. Fair Value of Financial Instruments

The following table presents the estimated fair values of the Company's financial instruments made in accordance with the requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. This Statement requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that value. The estimated fair value amounts have been determined by the Company using available market information and present value or other valuation techniques. These derived fair values are subjective in nature, involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from the disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to represent the underlying value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents, Accrued Interest Receivable, and Accrued Interest Payable
The carrying amount is a reasonable estimate of fair value.

Investment Securities
For marketable equity securities, fair values are based on quoted market prices or dealer quotes. For other securities, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans
The fair value of loans is estimated by discounting the future cash flows using current discount rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities
The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for certificates of deposit with similar remaining maturities.

17. Fair Value of Financial Instruments (continued)

Commitments to Extend Credit and Standby Letters of Credit

Pricing of these financial instruments is based on the credit quality and relationship, fees, interest rates, probability of funding, compensating balance, and other covenants or requirements. Loan commitments generally have fixed expiration dates, variable interest rates and contain termination and other clauses that provide for relief from funding in the event there is a significant deterioration in the credit quality of the customer. Many loan commitments are expected to, and typically do, expire without being drawn upon. The rates and terms of the Company's commitments to lend and standby letters of credit are competitive with others in the various markets in which the Company operates. There are no unamortized fees relating to these financial instruments, as such the carrying value and fair value are both zero.

Federal Funds Purchased, Securities Sold Under Agreements to Repurchase, and Other Borrowed Funds

The fair value of federal funds purchased, securities sold under agreements to repurchase, and other borrowed funds is estimated using rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments are as follows.

December 31,	**2003**		2002	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 127,216	$ 127,216	$ 67,101	$ 67,101
Investments securities:				
Available for sale	358,169	358,169	413,038	413,038
Held to maturity	24,789	26,201	28,519	30,312
Loans, net	744,653	749,214	727,578	732,656
Accrued interest receivable	6,813	6,813	7,173	7,173
Liabilities				
Deposits	1,068,322	1,072,141	957,480	963,201
Federal funds purchased, securities sold under agreements to repurchase, and other borrowed funds	113,529	121,258	182,338	191,562
Accrued interest payable	1,330	1,330	1,853	1,853

18. Parent Company Financial Statements

Condensed Balance Sheets

December 31, (In thousands)	**2003**	2002
Assets		
Cash on deposit with subsidiaries	$ 29,291	$ 9,691
Investment securities available for sale	885	702
Investment in subsidiaries	93,158	116,005
Other assets	7,418	3,252
Total assets	$ 130,752	$ 129,650
Liabilities		
Dividends payable	$ 2,215	$ 2,191
Other liabilities	2,066	1,686
Total liabilities	4,281	3,877
Shareholders' Equity		
Common stock	1,020	1,017
Capital surplus	18,670	17,623
Retained earnings	145,489	141,199
Treasury stock	(40,830)	(37,627)
Accumulated other comprehensive income	2,122	3,561
Total shareholders' equity	126,471	125,773
Total liabilities and shareholders' equity	$ 130,752	$ 129,650

Condensed Statements of Income

Years Ended December 31, (In thousands)	**2003**	2002	2001
Income			
Dividends from subsidiaries	$ 37,005	$ 9,585	$ 7,058
Interest income	90	95	120
Other dividend income	26	24	49
Investment securities gains, net		110	449
Other noninterest income	1,690	1,078	1,027
Total income	38,811	10,892	8,703
Expense			
Noninterest expense	2,613	2,393	2,484
Total expense	2,613	2,393	2,484
Income before income tax benefit and equity in undistributed income of subsidiaries	36,198	8,499	6,219
Income tax benefit	386	318	285
Income before equity in undistributed income of subsidiaries	36,584	8,817	6,504
Equity in undistributed income of subsidiaries	(23,621)	3,744	8,167
Net income	$ 12,963	$ 12,561	$ 14,671

18. Parent Company Financial Statements (continued)

Condensed Statements of Cash Flows

Years Ended December 31, (In thousands)	2003	2002	2001
Cash Flows from Operating Activities			
Net income	$ 12,963	$ 12,561	$ 14,671
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	23,621	(3,744)	(8,167)
Noncash compensation expense	91	27	213
Gain on sale of available for sale investment securitites		(110)	(449)
Change in other assets and liabilities, net	2,772	(848)	(65)
Deferred income tax expense (benefit)	190	205	(51)
Net cash provided by operating activities	39,637	8,091	6,152
Cash Flows from Investing Activities			
Proceeds from sale of available for sale investment securities		399	1,986
Investment in nonbank subsidiary	(2,000)		
Purchases of company-owned life insurance	(6,807)		
Net cash (used in) provided by investing activities	(8,807)	399	1,986
Cash Flows from Financing Activities			
Dividends paid	(8,649)	(8,550)	(8,468)
Purchase of common stock	(3,203)	(6,550)	(10,322)
Stock options exercised	622	1,904	663
Net cash used in financing activities	(11,230)	(13,196)	(18,127)
Net increase (decrease) in cash and cash equivalents	19,600	(4,706)	(9,989)
Cash and cash equivalents at beginning of year	9,691	14,397	24,386
Cash and cash equivalents at end of year	$ 29,291	$ 9,691	$ 14,397
Supplemental Disclosures			
Cash paid during the year for income taxes	$ 1,400	$ 4,940	$ 5,350
Cash dividend declared and unpaid	2,215	2,191	2,152

19. Quarterly Financial Data

Unaudited (In thousands, except per share data) Quarters Ended 2003	March 31	June 30	Sept. 30	Dec. 31
Interest income	$ 15,508	$ 14,357	$ 14,189	$ 14,359
Interest expense	5,456	5,116	4,757	4,554
Net interest income	10,052	9,241	9,432	9,805
Provision for loan losses	385	351	642	1,214
Net interest income after provision for loan losses	9,667	8,890	8,790	8,591
Noninterest income	4,166	4,478	5,151	4,098
Noninterest expense	9,139	9,468	9,209	9,686
Income before income taxes	4,694	3,900	4,732	3,003
Income tax expense	1,101	874	831	560
Net income	$ 3,593	$ 3,026	$ 3,901	$ 2,443
Net income per common share, basic	$ .53	$ .45	$ .58	$ .36
Net income per common share, diluted	.53	.45	.58	.36
Weighted average shares outstanding, basic	6,764	6,723	6,712	6,712
Weighted average shares outstanding, diluted	6,798	6,765	6,761	6,768

Unaudited (In thousands, except per share data) Quarters Ended 2002	March 31	June 30	Sept. 30	Dec. 31
Interest income	$ 16,948	$ 16,555	$ 16,642	$ 16,146
Interest expense	6,793	6,619	6,372	5,962
Net interest income	10,155	9,936	10,270	10,184
Provision for loan losses	121	988	869	2,770
Net interest income after provision for loan losses	10,034	8,948	9,401	7,414
Noninterest income	4,121	4,141	4,341	4,033
Noninterest expense	9,037	8,691	9,043	9,330
Income before income taxes	5,118	4,398	4,699	2,117
Income tax expense	1,336	1,082	1,173	180
Net income	$ 3,782	$ 3,316	$ 3,526	$ 1,937
Net income per common share, basic	$ .55	$ .48	$ .51	$ .29
Net income per common share, diluted	.54	.48	.51	.29
Weighted average shares outstanding, basic	6,901	6,889	6,850	6,839
Weighted average shares outstanding, diluted	6,961	6,941	6,898	6,884

20. Subsequent Event (Unaudited)

On February 13, 2004 the Company reached an agreement to acquire 100% of the outstanding common stock of Citizens Bank (Kentucky), Inc., Georgetown, Kentucky, in a cash transaction valued at $14,500,000. Pending the required approvals from the appropriate regulatory authorities and subject to the satisfaction of the conditions set forth in the definitive agreement, the transaction is expected to close during the second quarter of 2004. The deal will improve the Company's ability to provide financial services in one of the more rapidly growing communities in Kentucky. As of December 31, 2003 Citizens Bank had approximately $80,000,000 in total assets and $65,000,000 in total deposits.

Corporate Address
The headquarters of Farmers Capital Bank Corporation is located at:
202 West Main Street
Frankfort, Kentucky 40601

Direct correspondence to:
Farmers Capital Bank Corporation
P.O. Box 309
Frankfort, Kentucky 40602–0309
Phone: (502) 227-1668
www.farmerscapital.com

Annual Meeting
The annual meeting of shareholders of Farmers Capital Bank Corporation will be held Tuesday, May 11, 2004 at 11:00 a.m. at the main office of Farmers Bank & Capital Trust Co., Frankfort, Kentucky.

Form 10-K
For a free copy of Farmers Capital Bank Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission, please write:
C. Douglas Carpenter, Vice President, Secretary, and Chief Financial Officer
Farmers Capital Bank Corporation
P.O. Box 309
Frankfort, Kentucky 40602–0309
Phone: (502) 227-1668

Web Site Access to Filings
All reports filed electronically by the Company to the United States Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available at no cost on the Company's Web site at www.farmerscapital.com.

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Stock Information
Farmers Capital Bank Corporation's stock is traded on the National Association of Securities Dealers Automated Quotation System (NASDAQ) SmallCap Market tier of The NASDAQ Stock Market, with sales prices reported under the symbol: FFKT.

NASDAQ Market Makers
J.J.B. Hilliard, W.L. Lyons, Inc.
(502) 588-8400
(800) 444-1854

Knight Equity Markets, L.P.
(888) 302-9197

Morgan, Keegan and Company
(800) 260-0280

Howe Barnes Investments, Inc.
(800) 621-2364

The Transfer Agent and Registrar for Farmers Capital Bank Corporation is the Farmers Bank & Capital Trust Co., Frankfort, Kentucky.