FAUQUIER BANKSHARES INC
Form 10-K/A
April 03, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

COMMISSION FILE NO.: 2-25805

FAUQUIER BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

VIRGINIA	54-1288193
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10 COURTHOUSE SQUARE, WARRENTON, VIRGINIA 20186
(Address of principal executive offices) (Zip Code)

(540) 347-2700
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $3.13 PER SHARE
(Title of Class)

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within 60 days prior to the date of filing. The aggregate market value of the registrant's common shares held by "non-affiliates" of the registrant, based upon the closing sale price of its common shares on the NASDAQ SmallCap Market System, was approximately $24,071,548. Common shares held by each officer, director and holder of 5% or more of the registrant's outstanding common shares have been excluded in that such persons or entities may be deemed to be

affiliates. Such determination of affiliate status is not a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. The registrant had 1,709,377 shares outstanding as of March 19, 2001.

DOCUMENTS INCORPORTATED BY REFERENCE

Portions of the definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days of the fiscal year ended December 31, 2000 are incorporated by reference into Part III of this Form 10-K/A.

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PART I

ITEM 1. BUSINESS

GENERAL

Fauquier Bankshares, Inc. ("Bankshares") was incorporated under the laws of the Commonwealth of Virginia on January 13, 1984. Bankshares is a registered bank holding company and owns all of the voting shares of The Fauquier Bank ("TFB"). Bankshares engages in its business through TFB, a Virginia state-chartered bank that commenced operations in 1902. Bankshares has no significant operations other than owning the stock of TFB. Bankshares has issued and outstanding 1,712,191 shares of common stock, par value $3.13 per share, held by approximately 405 holders of record on December 31, 2000.

TFB has six full service branch offices located in the Virginia communities of Warrenton, Catlett, The Plains, Sudley Road-Manassas, and New Baltimore, in addition to the main office branch located in Warrenton, Virginia. The executive offices of Bankshares and the main office of TFB are located at 10 Courthouse Square, Warrenton, Virginia 20186.

THE FAUQUIER BANK

TFB's general market area principally includes Fauquier County, western Prince William County, and neighboring communities and is located approximately sixty (60) miles southwest of Washington, D.C.

TFB provides a range of consumer and commercial banking services to individuals, businesses and industries. The deposits of TFB are insured up to applicable limits by the Bank Insurance Fund of the Federal Deposit Insurance Corporation. The basic services offered by TFB include: demand interest bearing and non-interest bearing accounts, money market deposit accounts, NOW accounts, time deposits, safe deposit services, credit cards, cash management, direct deposits, notary services, money orders, night depository, traveler's checks, cashier's checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, internet banking, and banking by mail. In addition, TFB makes secured and unsecured commercial and real estate loans, issues stand-by letters of credit and grants available credit for installment, unsecured and secured personal loans, residential mortgages and home equity loans, as well as automobile and other consumer financing. TFB provides automated teller machine (ATM) cards, as a part of the Honor and Plus ATM networks, thereby permitting customers to utilize the convenience of larger ATM networks.

TFB operates a Wealth Management Division that began with the granting of Trust powers to TFB in 1919. It is staffed with eleven professionals that provide personalized services that include investment management, trust, estate settlement, retirement, insurance, and brokerage services. During 2000, managed assets increased by $7.9 million to $132.4 million, or 6.4%, when compared with 1999, with revenue declining by $19,000 to $547,000, or 3.3%, over the same time period.

The revenues of TFB are primarily derived from interest on, and fees received in connection with, real estate and other loans, and from interest and dividends

from investment and mortgage-backed securities, and short-term investments. The principal sources of funds for TFB's lending activities are its deposits, repayment of loans, the sale and maturity of investment securities, and borrowings from the Federal Home Loan Bank of Atlanta. The principal expenses of TFB are the interest paid on deposits and operating and general administrative expenses.

As is the case with banking institutions generally, TFB's operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System ("Federal Reserve"). As a Virginia-chartered bank and a member of the Federal Reserve, TFB is supervised and examined by the Federal Reserve and the State Corporation Commission ("SCC"). Interest rates on competing investments and general market rates of interest influence deposit flows and costs of funds. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. TFB faces strong competition in the attraction of deposits (its primary source of lendable funds) and in the origination of loans. See "Competition."

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As of December 31, 2000, Bankshares had total consolidated assets of $249.9 million, total consolidated deposits of $212.1 million, and total consolidated shareholders' equity of $22.4 million.

LENDING ACTIVITIES

TFB offers a range of lending services, including real estate, consumer and commercial loans, to individuals as well as small to medium sized businesses and other organizations that are located in or conduct a substantial portion of their business in TFB's market area. TFB's total loans at December 31, 2000 were $200.4 million, or 80.2 % of total assets. The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan, and are further subject to competitive pressures, money market rates, availability of funds, and government regulations. TFB has no foreign loans or loans for highly leveraged transactions.

TFB's primary market area consists of Fauquier and Prince William Counties, Virginia and the surrounding communities. There is no assurance that this area will experience economic growth. Adverse conditions in any one or more of the industries operating in Fauquier or Prince William Counties or a slow-down in general economic conditions could have an adverse effect on Bankshares and TFB.

TFB's loans are concentrated in three major areas: commercial loans, real estate loans, and consumer loans. Approximately 8.6% and 18.0% of TFB's loan portfolio at December 31, 2000 consisted of commercial and consumer loans, respectively. The majority of TFB's loans are made on a secured basis. As of December 31, 2000, approximately 70.5% of the loan portfolio consisted of loans secured by mortgages on real estate.

LOANS SECURED BY REAL ESTATE

SINGLE FAMILY RESIDENTIAL LOANS. TFB's single-family residential mortgage loan portfolio consists of conventional loans, with interest rates fixed for 10 years or less and balloon loans with 3, 5, 7, or 10 year maturities and amortized for 30 years or less. As of December 31, 2000, TFB's conventional single-family

loans amounted to $74.2 million or 37.0% of the total loan portfolio. Substantially all of TFB's single-family residential mortgage loans are secured by properties located in TFB's service area. The majority of residential mortgage loans originated by TFB are originated under terms and documentation that permit the loans to be sold to the Federal Home Loan Mortgage Corporation ("FHLMC").

Loans with a fixed rate longer than 10 years are sold into the secondary market. TFB does not retain the servicing of sold loans.

TFB requires private mortgage insurance if the principal amount of the loan exceeds 80% of the value of the security property. TFB uses the underwriting guidelines of the PMI provider for loans having a loan-to-value ratio in excess of 80%. TFB also considers the income of the borrower in determining whether to make single-family residential mortgage loans.

CONSTRUCTION LOANS. The majority of TFB's construction loans are made to individuals to construct a primary residence. Such loans have a maximum term of nine months, have a fixed rate of interest, and have loan-to-value ratios of 80% or less of the appraised value upon completion. TFB requires that permanent financing, with TFB or some other lender, be in place prior to closing any construction loan. Construction loans are generally considered to involve a higher degree of credit risk than single-family residential mortgage loans. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion.

TFB also provides construction loans and lines of credit to developers. Such loans generally have maximum loan-to-value ratios of 80% of the appraised value upon completion. The loans are made with a fixed rate of interest. The majority of such loans consist of loans to selected local developers with whom TFB is familiar to build single-family dwellings on either a pre-sold or speculative basis. TFB limits the number of unsold units under construction. Loan proceeds are disbursed in stages after inspections of the project indicate that

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such disbursements are for costs already incurred and which have added to the value of the project. Construction loans include loans to developers to acquire the necessary land, develop the site and construct the residential units. As of December 31, 2000, TFB's construction loans totaled $12.9 million or 6.5% of the total loan portfolio.

COMMERCIAL REAL ESTATE LOANS. Loans secured by commercial real estate comprised $54.0 million or 26.9% of total loans and consist principally of commercial loans for which real estate constitutes a source of collateral. These loans are secured primarily by owner-occupied properties. Commercial real estate loans generally involve a greater degree of risk than single-family residential mortgage loans because repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy.

CONSUMER LOANS

The consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans that are payable on an installment basis. TFB offers a wide variety of consumer loans, which include installment loans, credit card loans, home equity loans and other secured and unsecured credit facilities. The majority of these loans are for terms of less than five years and are secured by liens on various personal assets of the borrowers, but consumer loans may also be made on an unsecured

basis. Consumer loans are made at fixed and variable rates, and are often based on up to a five-year amortization schedule.

COMMERCIAL LOANS

TFB's commercial loans include loans to individuals and small to medium sized businesses located primarily in Fauquier and Prince William Counties for working capital, equipment purchases, and various other business purposes. Equipment or similar assets secure a majority of TFB's commercial loans, but these loans may also be made on an unsecured basis. Commercial loans may be made at variable or fixed rates of interest. Commercial lines of credit are typically granted on a one-year basis. Other commercial loans with terms or amortization schedules longer than one year will normally carry interest rates that vary with the prime lending rate and other financial indexes and will become payable in full in three to five years.

Loan originations are derived from a number of sources, including direct solicitation by TFB's loan officers, existing customers and borrowers, advertising and walk-in customers.

Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect our ability to collect. TFB attempts to minimize loan losses through various means. In particular, on larger credits, TFB generally relies on the cash flow of a debtor as the source of repayment and secondarily on the value of the underlying collateral. In addition, TFB attempts to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral.

DEPOSIT ACTIVITIES

Deposits are the major source of TFB's funds for lending and other investment activities. TFB considers the majority of its regular savings, demand, NOW and money market deposit accounts to be core deposits. These accounts comprised approximately 65.1% of TFB's total deposits at December 31, 2000. Approximately 34.9% of TFB's deposits as of December 31, 2000 were certificates of deposit. Generally, TFB attempts to maintain the rates paid on its deposits at a competitive level. Time deposits of $100,000 and over made up approximately 11.5% of TFB's total deposits as of December 31, 2000 and generally pay interest at the same rates as certificates of less than $100,000. The majority of the deposits of TFB are generated from Fauquier and Prince William Counties. TFB has not accepted brokered deposits to date, but will continue to evaluate many funding sources, including the use of brokered deposits, as part of its asset/liability management.

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INVESTMENTS

TFB invests a portion of its assets in U.S. Treasury and U.S. Government corporation and agency obligations, state, county and municipal obligations, corporate obligations, mutual funds, FHLB stock, and equity securities. TFB's investments are managed in relation to loan demand and deposit growth, and are generally used to provide for the investment of excess funds at reduced yields and risks relative to yields and risks of the loan portfolio, while providing liquidity to fund increases in loan demand or to offset fluctuations in deposits. TFB does not currently engage in any off-balance sheet hedging activities.

GOVERNMENT SUPERVISION AND REGULATION

FINANCIAL SERVICES MODERNIZATION LEGISLATION. On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the "Act"), federal legislation intended to modernize the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Generally, the Act: (i.) repeals the historical restrictions and eliminates many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers; (ii.) provides a uniform framework for the functional regulation of the activities of banks, savings institutions and their holding companies; (iii.) broadens the activities that may be conducted by national banks, banking subsidiaries of bank holding companies and their financial subsidiaries; (iv.) provides an enhanced framework for protecting the privacy of consumer information; (v.) adopts a number of provisions related to the capitalization, membership, corporate governance and other measures designed to modernize the Federal Home Loan Bank system; (vi.) modifies the laws governing the implementation of the Community Reinvestment Act; and (vii.) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

Bank holding companies will be permitted to engage in a wider variety of financial activities than permitted under prior law, particularly with respect to insurance and securities activities. In addition, in a change from prior law, bank holding companies will be in a position to be owned, controlled or acquired by any company engaged in financially-related activities.

Bankshares does not believe that the Act will have a material adverse effect on our operations in the near-term. However, to the extent that it permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This could result in a growing number of financial institutions that offer a wider variety of financial services than Bankshares currently offers and that can aggressively compete in the markets Bankshares currently serves.

BANK HOLDING COMPANY REGULATION. Bankshares is a one-bank holding company, registered with the Federal Reserve under the Bank Holding Company Act of 1956 ("BHC Act"). As such, Bankshares is subject to the supervision, examination, and reporting requirements of the BHC Act and the regulations of the Federal Reserve. Bankshares is required to furnish to the Federal Reserve an annual report of its operations at the end of each fiscal year and such additional information as the Federal Reserve may require pursuant to the BHC Act.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5% of the total voting shares of the bank, (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of the bank, or (iii) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anti-competitive effects of the proposed

transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy and consideration of convenience and needs issues including the parties' performance under the Community Reinvestment Act of 1977 (the "CRA"), both of which are discussed below.

The BHC Act generally prohibits Bankshares from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. For example, factoring accounts receivable, acquiring or servicing loans, leasing personal property, conducting discount securities brokerage activities, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and performing certain insurance underwriting activities all have been determined by the Federal Reserve to be permissible activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Banks are subject to the provisions of the CRA. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the community served by that bank, including low- and moderate-income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, such assessment is required of any bank that has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office, or (v) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

BANK REGULATION. TFB is chartered under the laws of the Commonwealth of Virginia. The Federal Deposit Insurance Corporation (the "FDIC") insures its deposits to the extent provided by law. TFB is subject to comprehensive regulation, examination and supervision by the Federal Reserve and to other laws and regulations applicable to banks. Such regulations include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; and the disclosure of the costs and terms of such credit. State

regulatory authorities also have broad enforcement powers over TFB, including the power to impose fines and other civil or criminal penalties and to appoint a receiver in order to conserve the assets of any such institution for the benefit of depositors and other creditors.

Under federal law, federally insured banks are subject, with certain exceptions, to certain restrictions on any extension of credit to their parent holding companies or other affiliates, on investment in the stock or other securities of affiliates, and on the taking of such stock or securities as collateral from any borrower. In addition, such banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted. FIRREA contains major regulatory reforms, stronger capital standards for savings and loan associations and stronger civil and criminal enforcement provisions. FIRREA also provides that a depository

institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC after August 9, 1989 in connection with (i) the default of a commonly controlled FDIC insured depository institution, or (ii) any assistance provided by the FDIC to a commonly controlled FDIC insured institution in danger of default.

In 1991, the FDIC Improvement Act of 1991 ("FDICIA") was enacted. FDICIA made a number of reforms addressing the safety and soundness of deposit insurance funds, supervision, accounting, and prompt regulatory action, and also implemented other regulatory improvements. Annual full-scope, on-site examinations are required of all insured depository institutions. The cost for conducting an examination of an institution may be assessed to that institution, with special consideration given to affiliates and any penalties imposed for failure to provide information requested. Insured state banks also are precluded from engaging as principal in any type of activity that is impermissible for a national bank, including activities relating to insurance and equity investments. FDICIA also re-codified current law restricting extensions of credit to insiders under the Federal Reserve Act.

DIVIDENDS. Dividends from TFB constitute the primary source of funds for dividends to be paid by Bankshares. There are various statutory and contractual limitations on the ability of TFB to pay dividends, extend credit, or otherwise supply funds to Bankshares, including the requirement under Virginia banking laws that cash dividends only be paid out of undivided profits and only if such dividends would not impair the capital of TFB. The Federal Reserve also has the general authority to limit the dividends paid by bank holding companies and state member banks, if such payment may be deemed to constitute an unsafe and unsound practice. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (1) the organization's net income available to common shareholders over the past year has been sufficient to fund fully the dividends and (2) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. TFB does not expect any of these laws, regulations or policies to materially impact its ability to pay dividends.

EFFECT OF GOVERNMENTAL POLICIES. The earnings and business of Bankshares and TFB are affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within

the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans, other extensions of credits, and deposits, and the interest rates paid on liabilities and received on assets.

ENFORCEMENT POWERS. Congress has provided the Federal Reserve and the FDIC with an array of powers to enforce laws, rules, regulations and orders. Among other things, these agencies may require that institutions cease and desist from certain activities, may preclude persons from participating in the affairs of insured depository institutions, may suspend or remove deposit insurance, and may impose civil money penalties against institution-affiliated parties for certain violations.

MAXIMUM LEGAL INTEREST RATES. Like the laws of many states, Virginia law contains provisions that govern interest rates that may be charged by banks and other lenders on certain types of loans. Numerous exceptions exist to the general interest limitations imposed by Virginia law. The relative importance of these interest limitation laws to the financial operations of TFB will vary from time to time, depending on a number of factors, including conditions in the money markets, the costs and availability of funds, and prevailing interest rates.

CHANGE OF CONTROL. Federal law restricts the amount of voting stock of a bank holding company and a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of Bankshares may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Federal law also imposes restrictions on acquisitions of stock in a bank holding company and a state bank. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company. Upon receipt of such notice, the Federal Reserve and the

SCC, as the case may be, may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company's or bank's voting stock, or if one or more other control factors set forth in the act are present.

INSURANCE OF DEPOSITS. TFB's deposit accounts are insured by the FDIC up to a maximum of $100,000 per insured depositor. The FDIC issues regulations, conducts periodic examinations, requires the filing of reports and generally supervises the operations of its insured banks. Any insured bank that is not operated in accordance with or does not conform to FDIC regulations, policies and directives may be sanctioned for non-compliance. Proceedings may be instituted against any insured bank or any director, officer, or employee of such bank engaging in unsafe and unsound practices, including the violation of applicable laws and regulations. The FDIC has the authority to terminate insurance of accounts pursuant to procedures established for that purpose.

CAPITAL REQUIREMENTS. The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies. The resulting capital ratios represent qualifying capital as a percentage of total risk-weighted

assets and off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain all ratios well in excess of the minimums. The current guidelines require all bank holding companies and federally regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common stockholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets. As of December 31, 2000 (i) Bankshares' Tier 1 and total risk-based capital ratios were 12.0 % and 13.2%, respectively, and (ii) TFB's Tier 1 and total risk-based capital ratios were 12.0% and 13.3%, respectively.

FDICIA contains "prompt corrective action" provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized" and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes "significantly undercapitalized" or "critically undercapitalized".

The FDIC has issued regulations to implement the "prompt corrective action" provisions of FDICIA. In general, the regulations define the five capital categories as follows: (i) an institution is "well capitalized" if it has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 6% or greater, has a leverage ratio of 5% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level for any capital measures; (ii) an institution is "adequately capitalized" if it has a total risk-based capital ratio of 8% or greater, has a Tier 1 risk-based capital ratio of 4% or greater, and has a leverage ratio of 4% or greater; (iii) an institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8%, has a Tier 1 risk-based capital ratio that is less than 4% or has a leverage ratio that is less than 4%; (iv) an institution is "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage ratio that is less than 3%; and (v) an institution is "critically undercapitalized" if its "tangible equity" is equal to or less than 2% of its total assets. The FDIC also, after an opportunity for a hearing, has authority to downgrade an institution from "well capitalized" to "adequately capitalized" or to subject an "adequately capitalized" or "under-capitalized" institution to the supervisory actions applicable to the next lower category, for supervisory concerns. As of December 31, 2000, TFB had a total risk-based capital ratio of 13.3%, a Tier 1 risk-based capital ratio of 12.0%, and a leverage ratio of 9.2%. TFB was notified by the Federal Reserve Bank of Richmond that, at December 31, 2000, TFB was "well capitalized" under the regulatory framework for prompt corrective action.

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Additionally, FDICIA requires, among other things, that (i) only a "well capitalized" depository institution may accept brokered deposits without prior regulatory approval and (ii) the appropriate federal banking agency annually examine all insured depository institutions, with some exceptions for small, "well capitalized" institutions and state-chartered institutions examined by state regulators. FDICIA also contains a number of consumer banking provisions,

including disclosure requirements and substantive contractual limitations with respect to deposit accounts.

COMPETITION

Bankshares encounters strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws that permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of its business, TFB competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that TFB does not currently provide. In addition, many of TFB's non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. Recent federal and state legislation has heightened the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly.

To compete, TFB relies upon specialized services, responsive handling of customer needs, and personal contacts by its officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and location of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service.

EMPLOYEES

As of December 31, 2000, Bankshares and TFB employed 83 full-time employees and 36 part-time employees. A collective bargaining unit does not represent the employees. Bankshares and TFB consider relations with employees to be good.

ITEM 2. PROPERTIES

TFB owns or leases property and operates branches at the following locations:

LOCATION	LEASE/OWN	RENT (ANNUAL)	EXPIRATION	RENEWAL
Main Office * P.O. Box 561 10 Courthouse Square Warrenton, VA 20186	Own	N/A	N/A	N/A
Catlett Branch Office Rt. 28 and 806 Catlett, VA 20119	Own	N/A	N/A	N/A
Sudley Road Branch Office 8091 Sudley Rd. Manassas, VA 20109	Lease	$41,160	2004	Additional 5 yr
New Baltimore Office 5119 Lee Highway Warrenton, VA 20187	Own	N/A	N/A	N/A

The Plains Office 6464 Main Street The Plains, VA 20198	Own	N/A	N/A	N/A
View Tree Office 216 Broadview Avenue Warrenton, VA 20186	Own	N/A	N/A	N/A

* TFB and Bankshares

ITEM 3. LEGAL PROCEEDINGS

There is no pending or threatened litigation and no litigation was terminated during the fourth quarter of the fiscal year ended December 31, 2000 that, in the opinion of management, may materially impact the financial condition of Bankshares or TFB.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

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

Bankshares' common shares are traded over the counter on the National Association of Securities Dealers Automated Quote ("NASDAQ") SmallCap Market System under the symbol "FBSS". Bankshares' common shares commenced trading on December 27, 1999.

As of December 31, 2000, there were 1,712,191 outstanding shares of common stock, which is the only class of Bankshares capital stock. As of December 31, 2000 there were approximately 405 holders of record of Bankshares common stock. The following sets forth the high and low sales prices for Bankshares common shares and the amounts of any cash dividends paid for each full quarterly period within the two most recent fiscal years:

	2000		1999		Dividends Per Share	
	High	Low	High	Low	High	Low
1st Quarter	$18.50	$15.38	$19.38	$18.50	$0.15	$0.13
2nd Quarter	$17.50	$15.00	$19.00	$18.00	$0.16	$0.14
3rd Quarter	$18.25	$15.75	$19.00	$18.38	$0.16	$0.14
4th Quarter	$16.00	$14.50	$19.38	$17.00	$0.17	$0.15

Bankshares' future dividend policy is subject to the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. Bankshares' ability to pay cash dividends will depend entirely upon TFB's ability to pay dividends to Bankshares.

Transfers of funds from TFB to Bankshares in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2000, the aggregate amount of unrestricted funds that could be transferred from TFB to Bankshares without prior regulatory approval totaled $1.5 million.

ITEM 6: SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

	At and for the Year Ended D			
(Dollars in thousands, except per share data)	2000	1999	1998	
EARNINGS STATEMENT DATA:				
Interest income	$ 18,002	$ 17,129	$ 15,024	$
Interest expense	6,084	6,043	5,519	
Net interest income	11,918	11,086	9,505	
Provision for loan losses	457	695	535	
Net interest income after provision for loan losses	11,461	10,391	8,970	
Noninterest income	2,842	2,433	2,202	
Securities gains (losses)	(111)	--	17	
Noninterest expense	9,665	9,023	7,708	
Income before income taxes	4,527	3,801	3,481	
Income taxes	1,430	1,162	1,039	
Net income	$ 3,097	2,639	$ 2,442	$
PER SHARE DATA: (1)				
Net income per share, basic	1.76	1.46	1.31	
Net income per share, diluted	1.75	1.45	1.30	
Cash dividends	0.64	0.56	0.45	
Average basic shares outstanding	1,755,182	1,802,165	1,857,282	1,
Average diluted shares outstanding	1,766,773	1,818,132	1,875,641	1,
Book value at period end	13.09	11.95	11.52	
BALANCE SHEET DATA:				
Total Assets	$ 249,855	$ 233,208	$ 220,026	$
Loans, net	197,879	181,503	162,272	
Investment securities	16,956	18,779	22,791	
Deposits	212,103	187,273	179,217	
Shareholders' equity	22,419	21,204	21,177	
PERFORMANCE RATIOS:				
Net interest margin(2)	5.56%	5.35%	5.35%	
Return on average assets	1.32%	1.14%	1.21%	
Return on average equity	14.13%	12.50%	11.60%	
Dividend payout	36.09%	34.34%	34.10%	
Efficiency ratio(3)	65.18%	63.51%	65.90%	
ASSET QUALITY RATIOS:				
Allowance for loan losses to period end loans, net	1.27%	1.24%	1.13%	
Nonperforming loans to allowance for				

loan losses	4.74%	5.49%	35.96%
Net charge-offs to average loans	0.10%	0.15%	0.23%
CAPITAL AND LIQUIDITY RATIOS:			
Leverage	9.13%	8.80%	9.70%
Risk Based Capital Ratios:			
Tier 1 capital	11.96%	12.20%	13.10%
Total capital	13.21%	13.40%	14.30%

(1) Amounts have been restated to reflect a two-for-one stock split during 1998 and a four-for-one stock split during 1996.

(2) Net interest margin is calculated as fully taxable equivalent net interest income divided by average earning assets and represents the Corporation's net yield on its earning assets.

(3) Efficiency ratio is computed by dividing non-interest expense by the sum of fully taxable equivalent net interest income and non-interest income.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion is qualified in its entirety by the more detailed information and the financial statements and notes thereto appearing elsewhere in this Form 10-K. In addition to the historical information contained herein, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of Bankshares, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. Bankshares' ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations and future prospects of Bankshares include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in Bankshares' market area and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

INTRODUCTION

This discussion is intended to focus on certain financial information regarding Bankshares and TFB. The purpose of this discussion is to provide the reader with a more thorough understanding of the financial statements. This discussion should be read in conjunction with the financial statements and accompanying notes contained elsewhere herein.

Management is not aware of any market or institutional trends, events or

uncertainties that are expected to have a material effect on the liquidity, capital resources or operations of Bankshares or TFB. Also, management is not aware of any current recommendations by its regulatory authorities that would have a material effect on liquidity, capital resources or operations. TFB's internal sources of such liquidity are deposits, loan repayments and securities available for sale. TFB's primary external source of liquidity is advances from the Federal Home Loan Bank ("FHLB") of Atlanta.

OVERVIEW

The reported results of Bankshares are dependent on a variety of factors, including the general interest rate environment, competitive conditions in the industry, governmental policies and regulations and conditions in the markets for financial assets. Net interest income is the largest component of net income, and consists of the difference between income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volume, interest rates and composition of interest-earning assets and interest-bearing liabilities.

COMPARISON OF OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999

Net income of $3.1 million in 2000 was a 17.3% increase from 1999 net income of $2.6 million. Earnings per share ("EPS") on a fully diluted basis were $1.75 in 2000 compared to $1.45 in 1999. Profitability as measured by return on average equity increased from 12.5% in 1999 to 14.1% in 2000.

Certain expenses associated with a misappropriation of cash reduced 2000 and 1999 earnings by $86,000 and $288,000, net of tax, respectively. On February 28, 2000, the Bank was first advised by its accountants as to the possible misappropriation of cash in the approximate amount of $437,000. The Bank immediately reported the loss to its insurance carrier and began an aggressive investigation of the misappropriation. The $437,000 loss, or $288,000 net of taxes, was recorded in 1999. Based on the ongoing investigation, an additional loss of $130,000, or $86,000 net of taxes, was recorded in 2000. On January 29, 2001, the Bank recovered $542,000, or $358,000 net of taxes, from its insurance carrier for these losses. This recovery will be recorded as income in the first quarter of the year ended December 31, 2001. Subject to further results of the ongoing investigation, additional recoveries, if any, would be recorded as income in the year received.

NET INTEREST INCOME. Total interest income grew $0.9 million or 5.1% to $18.0 million in 2000 from $17.1 million in 1999. This increase was primarily the result of loan growth. Average loan balances increased from $174.9 million in 1999 to $193.4 million in 2000. The average yield on loans remained a relatively stable 8.64% in 2000 compared with 8.70% in 1999. Together, this resulted in a $1.5 million increase in interest income from loans for the year 1999 compared with year 2000. Partially offsetting the increase in interest income from loans was the $0. 7 million decline in investment income due to the decline in average investment assets. Average investment balances decreased $11.5 million from $28.4 million in 1999 to $16.9 million in 2000, primarily due to investment maturity proceeds being reinvested into loans rather than other investments. The tax-equivalent average yield on investments declined slightly from 6.19% in 1999 to 6.08% in 2000. The use of maturing investments to fund new loan growth, as exhibited in 2000, is projected to significantly lessen in 2001. Loan growth will be primarily funded by deposit growth and/or FHLB of Atlanta advances.

Average deposit balances grew $7.6 million, primarily in demand deposits and time certificates of deposit. The average rate on interest-bearing deposits increased from 3.24% in 1999 to 3.28% in 2000 due to the growth in costlier time certificates of deposit, which more than offset the decline in NOW, money market account, and savings account rates.

Net interest income for 2000 increased $0.8 million or 7.5% to $11.9 million for the year ended December 31, 2000 from $11.1 million for the year ended December 31, 1999. This increase was accomplished through a rise in total average earning assets from $215.2 million in 1999 to $217.7 million in 2000, as well as the reduction in average interest-bearing liabilities from $174.4 million in 1999 to $173.1 million in 2000. The percentage of average earning assets to total assets decreased slightly in 2000 to 92.6% from 92.9%. The Bank's net interest margin increased from 5.35 % in 1999 to 5.56% in 2000.

Future trends regarding net interest income are dependent on the absolute level of market interest rates, the shape of the yield curve, the amount of lost income from non-performing assets, the amount of prepaying loans, the mix and amount of various deposit types, and many other factors, as well as the overall volume of interest-earning assets. These factors are individually difficult to predict, and when taken together, the uncertainty of future trends compounds. Based on management's current projections, net interest income will remain relatively stable as interest-earning assets increase, but the net interest margin may decrease in 2001 due to the growth in time deposits and/or FHLB of Atlanta advances as the funding source for loan growth, rather than maturing investment proceeds.

PROVISION FOR LOAN LOSSES. The provision for loan losses was $457,000 for 2000 and $695,000 for 1999. The amount of the provision for loan loss for 2000 and 1999 was based upon management's continual evaluation of the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the loan portfolio, trends in TFB's delinquent and non-performing loans, estimated values of collateral, and the impact of economic conditions on borrowers. There can be no assurances, however, that future losses will not exceed estimated amounts, or that increased amounts of provisions for loan losses will not be required in future periods as conditions dictate.

NON-INTEREST INCOME. Total other income increased by $298,000 or 12.2% from $2.4 million for 1999 to $2.7 million for 2000. Other income is primarily derived from non-interest fee income, which consists primarily of fiduciary fees, service charges, and other fee income. In 2000, the increase stemmed from a $126,000 increase in other service charges, commissions and fees, and a $294,000 increase in service charges on deposit accounts. These increases were partially offset by a $111,000 loss on sales of securities in 2000.

One major factor in the increase in service charges on deposit accounts was management's focus on reducing the level of waivers on Not Sufficient Fund ("NSF") service charges. During 1999 approximately 33% of NSF were waived compared with approximately 22% in 2000, which in itself increased non-interest income $114,000.

NON-INTEREST EXPENSE. Total other operating expenses increased $642,000 or 7.1% in 2000 from 1999. The primary component of the increase was an increase in salaries and employees' benefits of $390,000 or 10.5%, primarily due to the increase in full-time equivalent personnel from approximately 93 at year-end 1999 to 104 at year-end 2000, as well as normal annual salary increases. In

addition, other operating expenses increased $218,000 or 5.4%, primarily due to investigation-related expenses as result of the misappropriation of cash, as well as an increase in management consulting fees in connection with TFB's strategic and succession planning processes.

INCOME TAXES. Income tax expense increased by $268,000 for the year ended December 31, 2000 compared to the year ended December 31, 1999. The effective tax rates were 31.6% for 2000 and 30.6% for 1999. The effective tax rate differs from the statutory federal income tax rate of 34% due to TFB's investment in tax-exempt securities.

The following table presents a quarterly summary of earnings for the last two years. In 1999, quarterly income increased in the first three quarters and declined during the fourth quarter. The reduction in fourth quarter earnings was due primarily to the aforementioned non-recurring expenses associated with a misappropriation of cash. In 2000, earnings exhibited stable growth, particularly strong in the second quarter, due to increased earnings from operations.

EARNINGS
(In Thousands)

	Three Months Ended 2000		
	Dec. 31	Sep. 30	June 30
Interest income	$ 4,741	$ 4,581	$ 4,401
Interest expense	1,801	1,458	1,379
Net interest income	2,940	3,124	3,022
Provision for loan losses	0	138	152
Net interest income after provision for loan losses	2,940	2,986	2,869
Other income	653	711	712
Other expense	2,629	2,295	2,496
Income before income taxes	964	1,403	1,085
Income tax expense	298	449	342
Net income	$ 667	$ 953	$ 744
Net income per share, basic	$0.39	$0.54	$0.42
Net Income per share, diluted	$0.39	$0.54	$0.41

	Three Months Ended 1999		
	Dec. 31	Sep. 30	June 30
Interest income	$ 4,509	$ 4,390	$ 4,292
Interest expense	1,479	1,510	1,486
Net interest income	3,030	2,880	2,806
Provision for loan losses	55	180	225
Net interest income after provision for loan losses	2,975	2,700	2,581
Other income	624	599	613
Other expense	2,729	2,103	2,101

Income before income taxes	871	1,196	1,093
Income tax expense	269	381	302
Net income	$ 602	$ 815	$ 791
Net income per share, basic	$0.33	$0.45	$0.44
Net Income per share, diluted	$0.33	$0.45	$0.43

COMPARISON OF OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 1999 AND DECEMBER 31, 1998

Net income of $2.6 million in 1999, was an 8.1% increase from 1998 net income of $2.4 million. Earnings per share (EPS) on a fully diluted basis were $1.45 in 1999 compared to $1.30 in 1998. Profitability as measured by return on average equity increased from 11.6% in 1998 to 12.5% in 1999. Certain non-recurring expenses associated with a misappropriation of cash of $288,000, net of tax, reduced 1999 earnings and return on average equity by 9.9% and 13.9%, respectively.

NET INTEREST INCOME. Total interest income grew $2.1 million or 14.1% to $17.1 million in 1999 from $15.0 million in 1998. This increase was primarily the result of loan growth. Loan receivables grew 11.9% or $19.2 million from December 31, 1998 to December 31, 1999. Loan growth was funded by an increase in deposits of $8.1 million, a $5 million increase in FHLB of Atlanta advances and a reduction of $4.0 million in the investment portfolio. Total interest expense grew by $524,000 or 9.5% to $6.0 million in 1999 from $5.5 million in 1998.

Net interest income for 1999 increased $1.6 million or 16.7% to $11.1 million for the year ended December 31, 1999 from $9.5 million for the year ended December 31, 1998. This increase was accomplished through an increase in total average earning assets from $185.7 million in 1998 to $215.2 million in 1999. The percentage of average earning assets to total assets increased slightly in 1999 to 92.9% from 92.0%. The Bank's net interest margin remained constant in 1999 at 5.35%.

PROVISION FOR LOAN LOSSES. The provision for loan losses was $695,000 for 1999 and $535,000 for 1998. The amount of the provision for loan loss for 1999 and 1998 was determined based upon management's

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continual evaluation of the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the loan portfolio, trends in TFB's delinquent and non-performing loans, and the impact of economic conditions on borrowers. There can be no assurances, however, that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required in future periods.

NON-INTEREST INCOME. Total other income increased by $214,000 or 9.7% from $2.2 million for 1998 to $2.4 million for 1999. Other income is primarily derived from non-interest fee income, which consists primarily of fiduciary fees, service charges, and other fee income. In 1999, the increase stemmed from an $83,000 increase in other service charges, commissions and fees, a $143,000 increase in service charges on deposit accounts and a $10,000 increase in trust department income. These increases were partially offset by $22,000 decrease in

gains on sales of securities and other operating income in 1999.

NON-INTEREST EXPENSE. Total other operating expenses increased $1.3 million or 17.1% in 1999 from 1998. The primary components of the increase were an increase in salaries and employees' benefits of $532,000, partially due to the staffing of the Manassas branch opened in 1999, and a $437,000 non-recurring miscellaneous non-loan charge resulting from a misappropriation of cash. Also, net occupancy and furniture and equipment expense increased by $139,000 during 1999.

INCOME TAXES. Income tax expense increased by $123,000 for the year ended December 31, 1999 compared to the year ended December 31, 1998. The effective tax rates were 30.6% for 1999 and 29.9% for 1998. The effective tax rate differs from the statutory federal income tax rate of 34% due to TFB's investment in tax-exempt securities.

COMPARISON OF DECEMBER 31, 2000 AND DECEMBER 31, 1999 FINANCIAL CONDITION

Total assets were $249.9 million at December 31, 2000, an increase of 7.1% or $16.6 million from $233.2 million at December 31, 1999. Balance sheet categories reflecting significant changes included investment securities, total loans, deposits, and Federal Home Loan Bank advances. Each of these categories is discussed below.

INVESTMENT SECURITIES. Total investment securities were $17.0 million at December 31, 2000, reflecting a decrease of $1.8 million from $18.8 million at December 31, 1999. The fund proceeds resulting from the decrease were primarily reinvested into loans. At December 31, 2000, the investment securities portfolio was segregated into available for sale of $13.0 million and held to maturity of $4.0 million. The valuation allowance for the available for sale portfolio had an unrealized loss of $130,000 at December 31, 2000 compared to $557,000 at December 31, 1999. Effective January 1, 2001, TFB adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," and transferred securities with a book value of $3,980,000 and a market value of $3,981,000 to the available for sale category.

LOANS. The total net loan balance after allowance for loan losses was $197.9 million at December 31, 2000, which represents an increase of $16.4 million or 9.0% from $181.5 million as of December 31, 1999. The majority of this increase was reflected in the loans secured by 1-4 family residential real estate, which increased $9.2 million from 1999 to 2000. In addition, loans secured by nonresidential real estate and consumer installment loans increased $3.0 million and $2.3 million, respectively, over the same time period. The majority of consumer installment loans were comprised of automobile loans. TFB's loans are made primarily to customers located within its local trade area.

DEPOSITS. For the year ended December 31, 2000, total deposits grew $24.8 million or 13.3% when compared with total deposits one year earlier. The growth in deposits was in noninterest-bearing demand deposits that increased by $6.3 million and time deposits that increased $27.4 million. NOW accounts were relatively stable year to year, while money market accounts and savings deposits declined $6.2 million and $2.5 million, respectively.

FHLB ADVANCES. Amounts borrowed from the FHLB of Atlanta decreased from $23 million or 10.6% of earning assets at December 31, 1999 to $13 million or 5.6% of earning assets at December 31, 2000. The decreased borrowings from the FHLB were a result of strong deposit growth. The term structure of the advances borrowed was 10 years with a 5 year call option in 2003.

ASSET QUALITY

Non-performing loans, in most cases, consist of loans that are 90 days or more past due and for which the accrual of interest has been discontinued. Management evaluates all loans that are 90 days or more past due, as well as loans that have suffered financial distress, to determine if they should be placed on non-accrual status. Factors considered by management include the estimated value of collateral, if any, and other resources of the borrower that may be available to satisfy the delinquency.

Non-accrual loans totaled approximately $121,000 or .06% of total loans at December 31, 2000, as compared to $125,000 or .07% of total loans at December 31, 1999. Non-performing loans as a percentage of the allowance for loan losses were 4.7% and 5.5% at December 31, 2000 and 1999, respectively.

Loans past due 90 days and accruing interest totaled $800,000 and $170,000 at December 31, 2000 and 1999, respectively. At December 31, 2000, approximately $749,000 of the $800,000 consisted of two loans, both secured by real estate. No loss is anticipated on either loan.

There are no loans other than those disclosed above as either non-performing or impaired where known information about the borrower caused management to have serious doubts about the borrower's ability to comply with the contractual repayment obligations. There are also no other interest-bearing assets that would be subject to disclosure as either non-performing or impaired if such interest-bearing assets were loans. There are no concentrations of loans to borrowers engaged in similar activities that exceed 10% of total loans of which management is aware.

CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity totaled $22.4 million at December 31, 2000 compared with $21.2 million at December 31, 1999. The relative stability in the amount of equity reflects management's desire to increase shareholders' return on equity by managing the growth in equity. During the first quarter of 1998, the company initiated a Dutch Auction self-tender offer to buy back shares directly from shareholders. As a result of this action, Bankshares bought back 60,238 shares, as adjusted for the two for one stock split, or 3.3% of shares outstanding on December 31, 1997, for $1.2 million. Exclusive of the Dutch Auction, Bankshares initiated an open market buyback program in 1998, through which it has bought back an additional 15,000 shares at a cost of $0.3 million in 1998, 68,213 shares at a cost of $1.3 million in 1999, and 63,120 shares at a cost of $1.1 million in 2000.

The securities portfolio valuation account decreased its unrealized loss after tax to $86,000 at December 31, 2000 compared to an unrealized loss of $368,000 at December 31, 1999.

Banking regulations have established minimum capital requirements for financial institutions, including risk-based capital ratios and leveraged ratios. As of December 31, 2000, the appropriate regulatory authorities have categorized Bankshares and TFB as well capitalized under the regulatory framework for prompt corrective action.

The primary sources of funds are deposits, repayment of loans, maturities of investments, funds provided from operations and advances from the FHLB of Atlanta. While scheduled repayments of loans and maturities of investment securities are predictable sources of funds, deposit flows and loan repayments are greatly influenced by the general level of interest rates, economic conditions and competition. TFB uses its sources of funds to fund existing and future loan commitments, to fund maturing certificates of deposit and demand

deposit withdrawals, to invest in other interest-earning assets, to maintain liquidity, and to meet operating expenses. Management monitors projected liquidity needs and determines the desirable level based in part on TFB's commitments to make loans and management's assessment of TFB's ability to generate funds.

Cash and amounts due from depository institutions and federal funds sold totaled $25.6 million at December 31, 2000. These assets provide the primary source of liquidity for TFB. In addition, management has designated a substantial portion of the investment portfolio, approximately $13.0 million as available for sale, and has an available line of credit with the FHLB of Atlanta with a borrowing limit of approximately $38 million at December 31, 2000 to provide additional sources of liquidity. At December 31, 2000, $13.0 million of the FHLB of Atlanta line of credit was in use.

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The following table sets forth information relating to Bankshares' average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields and rates paid for the periods indicated. Such yields and costs are derived by dividing income or expense by the average daily balances of assets and liabilities, respectively, for the periods presented.

AVERAGE BALANCES, INCOME AND EXPENSES, AND AVERAGE YIELDS AND RATES
(In Thousands)

	2000			
ASSETS:	Average Balances	Income/ Expense	Average Rate	Average Balances
Loans				
Taxable	$188,935	$16,357	8.66%	$169,731
Tax-exempt (1)	4,257	345	8.11%	4,357
Nonaccrual	219	--		770
Total Loans	193,411	16,702	8.64%	174,858
Securities				
Taxable	14,209	841	5.92%	25,477
Tax-exempt (1)	2,651	184	6.95%	2,888
Total securities	16,860	1,025	6.08%	28,365
Deposits in banks	105	5	5.02%	666
Federal funds sold	7,331	450	6.14%	11,317
Total earning assets	217,707	18,182	8.35%	215,206
Less: Reserve for loan losses	(2,569)			(2,213)
Cash and due from banks	9,846			9,704
Bank premises and equipment, net	5,464			5,268
Other assets	4,548			3,783
Total Assets	$234,996			$231,748

LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits				
Demand deposits	$37,123	--		$ 33,906
Interest-bearing deposits				
NOW accounts	37,201	415	1.12%	37,349
Money market accounts	34,969	1,185	3.39%	36,390
Savings accounts	32,869	881	2.68%	33,220
Time deposits	53,001	2,707	5.11%	46,683
Total interest-bearing deposits	158,040	5,188	3.28%	153,642
Federal funds purchased and securities sold under agreements to repurchase	--	--		--
Federal Home Loan Bank advances	15,022	896	5.96%	20,733
Total interest-bearing liabilities	173,062	6,084	3.52%	174,375
Other liabilities	2,899			2,348
Shareholders' equity	21,912			21,119
Total Liabilities & Shareholders' Equity	$234,996			$231,748
Net interest spread		$12,098	4.83%	
Interest expense as a percent of average earning assets			2.79%	
Net interest margin			5.56%	

	1998		
	Average Balances	Income/ Expense	Avera Rate
ASSETS:			
Loans			
Taxable	$141,265	$12,706	8.99
Tax-exempt (1)	4,102	373	9.09
Nonaccrual	724	--	
Total Loans	146,091	13,079	8.95
Securities			
Taxable	24,250	1,464	6.04
Tax-exempt (1)	4,435	323	7.28
Total securities	28,685	1,787	6.23
Deposits in banks	1,791	89	4.97
Federal funds sold	9,126	493	5.40
Total earning assets	185,693	15,448	8.32
Less: Reserve for loan losses	(1,808)		
Cash and due from banks	9,593		
Bank premises and equipment, net	5,494		
Other assets	2,808		
Total Assets	$201,780		

LIABILITIES AND SHAREHOLDERS' EQUITY:			
Deposits			
Demand deposits	$ 30,721	--	
Interest-bearing deposits			
NOW accounts	33,186	661	1.99
Money market accounts	37,958	1,509	3.98
Savings accounts	29,920	1,038	3.47
Time deposits	40,266	1,970	4.89
Total interest-bearing deposits	141,330	5,178	3.66
Federal funds purchased and securities sold under agreements to repurchase	3	--	0.00
Federal Home Loan Bank advances	6,726	341	5.07
Total interest-bearing liabilities	148,059	5,519	3.73
Other liabilities	1,967		
Shareholders' equity	21,033		
Total Liabilities & Shareholders' Equity	$201,780		
Net interest spread		$ 9,929	4.59
Interest expense as a percent of average earning assets			2.97
Net interest margin			5.35

(1) Income and rates on non-taxable assets are computed on a tax equivalent basis using a federal tax rate of 34%.

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RATE/VOLUME ANALYSIS

The following table sets forth certain information regarding changes in interest income and interest expense of Bankshares' for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to changes in volume (changes in volume multiplied by old rate); and changes in rates (change in rate multiplied by old volume). Changes in rate-volume, which cannot be separately identified, are allocated proportionately between changes in rate and changes in volume.

RATE/VOLUME VARIANCE
(In Thousands)

	2000 Compared to 1999			
	Change	Due to Volume	Due to Rate	Ch

INTEREST INCOME:				
Loans; taxable	$ 1,577	$ 1,611	$ (34)	$
Loans; tax-exempt	(84)	(10)	(74)	
Securities; taxable	(669)	(667)	(3)	
Securities; tax-exempt	(61)	(19)	(42)	
Deposits in banks	(27)	(28)	2	
Federal funds sold	(112)	(338)	226	
Total Interest Income	624	549	75	
INTEREST EXPENSE:				
NOW accounts	(129)	(2)	(127)	
Money market accounts	(112)	(50)	(62)	
Savings accounts	(92)	(10)	(82)	
Time deposits	543	311	232	
Federal funds purchased and securities sold under agreements to repurchase	--	--	--	
Federal Home Loan Bank Advances	(169)	(402)	233	
Total Interest Expense	41	(153)	194	
Net Interest Income	$ 583	$ 702	$ (119)	$

LOAN PORTFOLIO

At December 31, 2000 and 1999 net loans accounted for 79.2% and 77.8%, respectively, of total assets and was the largest category of Bankshares' earning assets.

Loans are shown on the balance sheets net of unearned discounts and the allowance for loan losses. Interest is computed by methods that result in level rates of return on principal. Loans are charged-off when deemed by management to be uncollectable after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

Bankshares adopted FASB No. 114, "Accounting by Creditors for Impairment of a Loan." This statement has been amended by FASB No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." FASB No. 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the fair value of the collateral. FASB No. 114, as amended also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

Bankshares considers all consumer installment loans and residential mortgage loans to be homogenous loans. These loans are not subject to impairment under FASB No. 114. A loan is considered impaired when it is probable that TFB will be unable to collect all principal and interest amounts according to the contractual terms of the loan agreement. Factors involved in determining impairment include, but are not limited to, expected future cash flows, financial condition of the borrower, and the current economic conditions. A performing loan may be considered impaired if the factors above indicate a need for impairment. A loan on non-accrual status may not be impaired if it is in the

process of collection or there is an insignificant shortfall in payment. An insignificant delay of less than 30 days or a shortfall of less than 5% of the required principal and interest payments generally do not indicate an impairment situation, if in management's judgement the loan will be paid in full. Loans that meet the regulatory definitions of doubtful or loss generally qualify as impaired loans under FASB No. 114. Charge-offs for impaired loans occur when the loan or portion of the loan is determined to be uncollectible, as is the case for all loans.

Loans are placed on non-accrual status when they have been specifically determined to be impaired or when principal or interest is delinquent for 90 days or more, unless when such loans are well secured and in the process of collection. Any unpaid interest previously accrued on such loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other non-accrual loans is recognized only to the extent of interest payments received.

Total loans on the balance sheet are comprised of the following classifications as of December 31, 2000, 1999, 1998, 1997, and 1996.

LOAN PORTFOLIO (In Thousands)

	December 31,		
	2000	1999	1998
Loans secured by real estate:			
Construction and land development	$ 12,948	$ 11,746	$ 8,297
Secured by farmland	381	903	1,163
Secured by 1-4 family residential	74,167	64,921	53,430
Nonfarm, nonresidential loans	53,959	50,988	49,814
Commercial and industrial loans (except those secured by real estate)	17,148	16,689	16,933
Agricultural loans	-	-	-
Loans to individuals (except those secured by real estate)	36,083	33,787	30,284
All other loans	5,873	4,868	4,620
Total loans	200,559	183,902	164,541
Less: Unearned discount	(126)	(115)	(416)
Total Loans, Net	$200,433	$183,787	$164,125

The following table sets forth certain information with respect to the Bank's non-accrual, restructured and past due loans, as well as foreclosed assets, for the periods indicated:

NON-PERFORMING ASSETS AND LOANS CONTRACTUALLY PAST DUE
(In Thousands)

	Years ended December 31,			
	2000	1999	1998	1997
Nonaccrual loans	$ 121	$ 125	$ 666	$ 551
Restructured loans	0	0	0	0
Other real estate owned	0	0	57	199
Total Non-Performing Assets	$ 121	$ 125	$ 723	$ 750
Loans past due 90 days accruing interest	$ 800	$ 170	$ 951	$ 491
Allowance for loan losses to total loans at period end	1.27%	1.24%	1.13%	1.27%
Non-performing assets to period end loans and other real estate owned	0.06%	0.07%	0.33%	0.41%

Potential Problem Loans: At December 31, 2000, Management is not aware of any significant problem loans not included in table.

SUMMARY OF LOAN LOSS EXPERIENCE

ANALYSIS OF LOAN LOSS EXPERIENCE. The allowance for loan losses is maintained at a level which, in management's judgement, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, credit concentration, trends in historical loss experience, specific impaired loans, and current economic conditions. Management periodically reviews the loan portfolio to determine probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowances relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Additions to the allowance for loan losses, which are recorded as the provision for loan losses on Bankshares' statements of earnings, are made monthly to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The amount of the provision is a function of the level of loans outstanding, the level of non-performing loans, historical loan-loss experience, the amount of loan losses actually charged off

or recovered during a given period and current national and local economic conditions.

At December 31, 2000, 1999, 1998, 1997, and 1996 the allowance for loan losses was $2,554,000, $2,284,000, $1,853,000, $1,655,000, and $1,465,000, respectively.

The following table summarizes TFB's loan loss experience for each of the last five years ended December 31, 2000, 1999, 1998, 1997, and 1996, respectively:

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	Year Ende December		
	2000	1999	1998
Allowance for Loan Losses, January 1	$2,284	$1,853	$1,6
Loans Charged-Off:			
Commercial, financial and agricultural	247	217	1
Real estate-construction and development	4	-	
Real estate-mortgage	20	-	
Consumer	171	110	2
Total Loans Charged-Off	442	327	3
Recoveries:			
Commercial, financial and agricultural	45	18	
Real estate-construction and development	-	-	
Real estate-mortgage	177	4	
Consumer	33	41	
Total Recoveries	255	63	
Net Charge-Offs	187	264	3
Provision for Loan Losses	457	695	5
Allowance for Loan Losses, December 31	$2,554	$2,284	$1,8
Ratio of Net Charge-Offs to Average Loans:	0.10%	0.15%	0.2

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES. The following table allocates the

allowance for loan losses at December 31, 2000, 1999, 1998, 1997, and 1996 to each loan category. The allowance has been allocated according to the amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the following categories of loans at the dates indicated, although the entire allowance balance is available to absorb any actual charge-offs that may occur.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	2000		1999	
	Allowance for Loan Losses	Percentage of Total Loans	Allowance for Loan Losses	Percentage of Total Loans
Commercial	$950	8.55%	$895	9.08%
Agricultural		0.00%		0.00%
Real Estate:				
Construction	25	6.46%		6.39%
Secured by Farmland		0.19%		0.49%
1-4 Family Residential	300	36.98%	264	35.32%
Other Real Estate	50	26.90%		27.74%
Consumer	1,229	17.99%	1,125	18.38%
All Other Loans		2.93%		2.65%
	$2,554	100.00%	$2,284	100.00%

	1997		1996	
	Allowance for Loan Losses	Percentage of Total Loans	Allowance for Loan Losses	Percentage of Total Loans
Commercial	$777	12.14%	$522	10.89%
Agricultural		0.00%		0.04%
Real Estate:				
Construction		5.36%		8.26%
Secured by Farmland		1.11%		1.15%
1-4 Family Residential	274	32.27%	293	29.32%
Other Real Estate		26.44%		31.21%
Consumer	604	18.71%	650	18.13%
All Other Loans		3.97%		1.00%
	$1,655	100.00%	$1,465	100.00%

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

The following is a schedule of maturities and sensitivities of loans subject to changes in interest rates as of December 31, 2000:

MATURITY SCHEDULE OF SELECTED LOANS (In Thousands)

	WIthin 1 Year	1 Year Within 5 Years	After 5 Years
Commercial and industrial loans	$ 4,028	$ 7,655	$ 1,265
Construction Loans	9,940	6,283	925
	$ 13,968	$ 13,938	$ 2,190
For maturities over one year:			
Floating rate loans		$ 4,095	$ 1,478
Fixed rate loans		9,843	712
		$ 13,938	$ 2,190

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INVESTMENT PORTFOLIO

At December 31, 2000, 1999 and 1998, the carrying values of the major classifications of securities were as follows:

INVESTMENT PORTFOLIO
(In Thousands)

	Available for Sale (1)			Held
	2000	1999	1998	2000
U.S. Treasury and other U.S. Government agencies and Corporations	$9,559	$10,151	$12,682	$1,589
States and political subdivisions	1,657	682	688	2,391
Mutual funds	--	810	862	
Restricted investment - Federal Home Loan Bank stock	1,150	1,150	967	
FHLMC preferred stock	488	488	488	
Other securities	122	122	122	
Total	$12,976	$13,403	$15,809	$3,980

(1) Amounts for held-to-maturity are based on amortized cost. Amounts for available-for-sale are based on fair value

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MATURITY OR NEXT RATE ADJUSTMENT DATE

The following is a schedule of maturities or next rate adjustment date and related weighted average yields of securities at December 31, 2000:

MATURITY DISTRIBUTION AND YIELDS OF SECURITIES (in Thousands)

	Due in one year or less		Due after 1 through 5 years		t
	Amount	Yield	Amount	Yield	Amo
SECURITIES HELD TO MATURITY:					
Obligations of U.S. government corporations and agencies	$ 1,287	6.38%	$ 302	6.39%	
Obligations of states and political subdivisions, taxable					
Total taxable	1,287	6.38%	302	6.39%	
Obligations of states and political subdivisions, tax-exempt	510	6.26%	1,881	6.58%	
Total	1,797	6.35%	2,183	6.56%	
SECURITIES AVAILABLE FOR SALE:					
Obligations of U.S. government corporations and agencies	3,433	6.03%	4,851	6.29%	
Obligations of states and political subdivisions, taxable	476	7.09%	-		
Other taxable securities	-		-		
Total taxable	3,909	6.16%	4,851	6.29%	
Obligations of states and political subdivisions, tax-exempt	207	9.33%	-		
Total	4,116	6.32%	4,851	6.29%	1
TOTAL SECURITIES:	$ 5,913	6.33%	$ 7,034	6.37%	$ 1

	Due after 10 years and Equity Securities		Total	
	Amount	Yield	Amount	Yield
SECURITIES HELD TO MATURITY:				
Obligations of U.S. government corporations and agencies	$ -		$ 1,589	6.39%
Obligations of states and political subdivisions, taxable			-	
Total taxable	-		1,589	6.39%
Obligations of states and political subdivisions, tax-exempt	-		2,391	6.51%
Total	-		3,980	6.46%
SECURITIES AVAILABLE FOR SALE:				
Obligations of U.S. government				

corporations and agencies	460	6.90%	9,559	6.26%
Obligations of states and political subdivisions, taxable	-		476	7.09%
Other taxable securities	1,759	7.25%	1,759	7.25%
Total taxable	2,219	7.18%	11,794	6.44%
Obligations of states and political subdivisions, tax-exempt	-		1,182	8.32%
Total	2,219	7.18%	12,976	6.61%
TOTAL SECURITIES:	$2,219	7.18%	$ 16,956	6.58%

(1) Yields on tax-exempt securities have been computed on a tax-equivalent basis using a federal tax rate of 34%.

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DEPOSITS

The average daily amounts of deposits and rates paid on deposits is summarized for the periods indicated in the following table:

DEPOSITS AND RATES PAID (In Thousands)

	December 31,			
	2000		1999	
	Amount	Rate	Amount	Rate
Noninterest-bearing	$ 37,123		$33,906	
Interest-bearing:				
NOW accounts	37,201	1.12%	37,349	1.46%
Money market accounts	34,969	3.39%	36,390	3.56%
Regular savings accounts	32,869	2.68%	33,220	2.93%
Time deposits:	53,001	5.11%	46,683	4.64%
Total interest-bearing	158,040	3.28%	153,642	3.24%
Total deposits	$195,163		$187,548	

MATURITY OF TIME DEPOSITS OF $100,000 OR MORE

The following is a schedule of maturities of time deposits in amounts of $100,000 or more as of December 31, 2000:

MATURITIES OF CERTIFICATES OF DEPOSIT
AND OTHER TIME DEPOSITS OF $100,000 AND MORE
(In Thousands)

	Within Three Months	Three to Six Months	Six to Twelve Months	One to Five Years
			(Dollars in thousands)	
At December 31, 2000	$1,859	$5,150	$10,678	$4,547

BORROWED FUNDS

LONG-TERM BORROWINGS. Amounts and weighted average rates for long-term borrowings for 2000, 1999 and 1998 are as follows:

BORROWED FUNDS (in Thousands)

	December 31, 2000		December 31, 1999		
	Amount	Rate	Amount	Rate	
FHLB Advances	$13,000	5.27%	$23,000	5.57%	$

SHORT-TERM BORROWINGS. This information is not required, as the average amount of borrowings during the period did not exceed 30% of shareholders' equity.

CAPITAL

Bankshares and TFB are subject to various regulatory capital requirements administered by banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Bankshares' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bankshares and TFB must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Bankshares' and TFB's 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 Bankshares and TFB to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I Capital to average assets (as defined in the regulations). Management believes, as of December 31, 2000 that Bankshares and TFB meet all capital adequacy requirements to which they are subject.

Bankshares and TFB exceeded their regulatory capital ratios, as set forth in the following table:

RISK BASED CAPITAL RATIOS (In Thousands)

	December 31, 2000	December 31, 1999
Tier 1 Capital:		
Shareholders' Equity	$ 22,504	$ 21,204
Tier 2 Capital:		
Allowable Allowance for Loan Losses	2,355	2,178
Total Capital:	$ 24,859	$ 23,382
Risk Weighted Assets:	$188,213	$174,493
Risk Based Capital Ratios:		
Tier 1 to Risk Weighted Assets	11.96%	12.20%
Total Capital to Risk Weighted Assets	13.21%	13.40%

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and the accompanying notes presented elsewhere in this document, have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of Bankshares and TFB are monetary in nature. The impact of inflation is reflected in the increased cost of operations. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which, as amended, is required to be adopted in years beginning after June 15, 2000. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. Effective January 1, 2001, TFB adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," and transferred securities with a book value of $3,979,645 and a market value of $3,980,765 to the available for sale category.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

An important component of both earnings performance and liquidity is management

of interest rate sensitivity. Interest rate sensitivity reflects the potential effect on net interest income of a movement in market interest rates. TFB is subject to interest rate sensitivity to the degree that its interest-earning assets mature or reprice at different time intervals than its interest-bearing liabilities. However, TFB is not subject to any of the other major categories of market risk such as foreign currency exchange rate risk or commodity price risk.

TFB uses a number of tools to manage its interest rate risk, including simulating net interest income under various scenarios, monitoring the present value change in equity under the same scenarios, and monitoring the difference or gap between rate sensitive assets and rate sensitive liabilities over various time periods. Management believes that rate risk is best measured by simulation modeling.

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The earnings simulation model forecasts annual net income under a variety of scenarios that incorporate changes in the absolute level of interest rates, changes in the shape of the yield curve and changes in interest rate relationships. Management evaluates the effect on net interest income and present value equity under varying market rate assumptions.

TFB monitors exposure to gradual changes in rates of up to 200 basis points up or down over a rolling 12-month period. TFB's policy limit for the maximum negative impact on net interest income and change in equity from gradual changes in interest rates of 200 basis points over 12 months is 15% and 20%, respectively. Management has maintained a risk position well within these guideline levels during 2000.

The following tables present TFB's market value changes in equity under various rate scenarios as of December 31, 2000 and 1999.

MARKET RISK

2000 (Dollars in thousands)	Percentage Change	Market Value Change	Minus 200 pts	Cu Fair
Federal funds sold	0.16%	24	14,712	
Securities	5.31%	$ 900	$ 17,857	$
Loans receivable	5.77%	11,360	208,278	1
Total rate sensitive assets	5.37%	12,284	240,847	2
Other assets	0.00%	-	20,332	
Total assets	4.94%	$ 12,284	$ 261,179	$ 2
Demand deposits	10.66%	$ 3,221	$ 33,430	$
Rate-bearing deposits	3.69%	6,118	171,977	1
Borrowed funds	14.04%	1,810	14,702	
Other liabilities	0.00%	-	2,333	
Total liabilities	5.28%	11,149	222,442	2
Present Value Equity	3.02%	1,135	38,737	

Total liabilities and equity	4.94%	$ 12,284	$ 261,179	$ 2

2000 (Dollars in thousands)	Plus 200 pts	Market Value Change	Percentage Change
Federal funds sold	14,664	(24)	-0.16%
Securities	$ 16,129	$ (828)	-4.88%
Loans receivable	186,597	(10,321)	-5.24%
Total rate sensitive assets	217,390	(11,173)	-4.89%
Other assets	20,332	-	0.00%
Total assets	$ 237,722	$ (11,173)	-4.49%
Demand deposits	$ 28,489	$ (1,720)	-5.69%
Rate-bearing deposits	161,795	(4,064)	-2.45%
Borrowed funds	11,333	(1,559)	-12.09%
Other liabilities	2,333	-	0.00%
Total liabilities	203,950	(7,343)	-3.48%
Present Value Equity	33,772	(3,830)	-10.19%
Total liabilities and equity	$ 237,722	$ (11,173)	-4.49%

1999 (Dollars in thousands)	Percentage Change	Market Value Change	Minus 200 pts	Cu Fair
Federal funds sold	0.16%	$ 23	$ 14,033	$ 1
Securities	5.19%	974	19,727	1
Loans receivable	6.20%	11,210	192,039	18
Total rate sensitive assets	5.72%	12,207	225,799	21
Other assets	0.00%	-	18,915	1
Total assets	5.25%	$ 12,207	$ 244,714	$ 23
Rate sensitive deposits	3.17%	$ 5,626	$ 183,370	$ 17
Borrowed funds	8.78%	1,997	24,744	2
Other liabilities	0.00%	-	1,731	
Total liabilities	3.77%	7,623	209,845	20
Present Value Equity	15.14%	4,584	34,869	3
Total liabilities and equity	5.25%	$ 12,207	$ 244,714	$ 23

1999 (Dollars in thousands)	Plus 200 pts	Market Value Change	Percantage Change
Federal funds sold	$ 13,987	$ (23)	-0.16%
Securities	18,011	(742)	-3.96%
Loans receivable	170,901	(9,928)	-5.49%
Total rate sensitive assets	202,899	(10,693)	-5.01%
Other assets	18,915	-	0.00%
Total assets	$ 221,814	$(10,693)	-4.60%
Rate sensitive deposits	$ 172,542	$ (5,202)	-2.93%
Borrowed funds	21,891	(856)	-3.76%
Other liabilities	1,731	-	0.00%
Total liabilities	196,164	(6,058)	-3.00%
Present Value Equity	25,650	(4,635)	-15.30%
Total liabilities and equity	$ 221,814	$(10,693)	-4.60%

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITOR'S REPORT

FAQUIER BANKSHARES, INC. AND SUBSIDIARIES

Warrenton, Virginia

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2000

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of
Fauquier Bankshares, Inc. and Subsidiaries
Warrenton, Virginia

We have audited the accompanying consolidated balance sheets of Fauquier Bankshares, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fauquier Bankshares, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years ended December 31, 2000, 1999 and 1998, in conformity with generally accepted accounting principles.

Winchester, Virginia
January 24, 2001

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2000 and 1999

ASSETS	--
	--
Cash and due from banks	$
Interest-bearing deposits in other banks	
Federal funds sold	
Securities (fair value: 2000, $16,957,101;	

1999, $18,752,504)
Loans, net of allowance for loan losses of $2,554,033 in 2000 and $2,284,348 in 1999
Bank premises and equipment, net
Accrued interest receivable
Other assets

Total assets	$

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Deposits:	
Noninterest-bearing	$
Interest-bearing	
Total deposits	
Federal Home Loan Bank advances	
Dividends payable	
Other liabilities	
Commitments and contingent liabilities	
Total liabilities	

SHAREHOLDERS' EQUITY

Common stock, par value, $3.13 per share; 8,000,000 shares authorized; issued and outstanding, 2000, 1,712,191 shares; 1999, 1,774,037 shares	
Retained earnings	
Accumulated other comprehensive (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	$

See Notes to Consolidated Financial Statements.

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income
For Each of the Three Years in the Period Ended December 31, 2000

	2000

INTEREST AND DIVIDEND INCOME	
Interest and fees on loans	$ 16,584,470
Interest on investment securities:	
Taxable interest income	142,788
Interest income exempt from federal income taxes	103,808
Interest and dividends on securities available for sale:	
Taxable interest income	539,331
Interest income exempt from federal income taxes	17,778
Dividends	158,761
Interest on federal funds sold	450,492
Interest on deposits in other ba	5,251
Total interest and dividend income	18,002,679
INTEREST EXPENSE	
Interest on deposits	5,188,371
Interest on Federal Home Loan Bank advances	895,984
Interest on federal funds purchased	--
Total interest expense	6,084,355
Net interest income	11,918,324
Provision for loan losses	457,498
Net interest income after provision for loan losses	11,460,826
NONINTEREST INCOME	
Fiduciary service income	547,072
Service charges on deposit accounts	1,483,245
Other service charges, commissions and fees	802,293
Gain (loss) on securities available for sale	(110,830)
Other operating income	8,969
Total noninterest income	2,730,749
NONINTEREST EXPENSES	
Salaries and employees' benefits	4,108,482
Net occupancy expense of premises	467,111
Furniture and equipment	834,915
Other operating expenses	4,254,838
Total noninterest expenses	9,665,346
Income before income taxes	4,526,229
Income tax expense	1,429,601
Net income	$ 3,096,628
EARNINGS PER SHARE, BASIC	$ 1.76

EARNINGS PER SHARE, ASSUMING DILUTION	$ 1.75

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
For Each of the Three Years in the Period Ended December 31, 2000

	2000
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 3,096,628
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	747,145
Provision for loan losses	457,498
Provision for other real estate	--
Deferred tax (benefit)	(156,891)
(Gain) loss on securities available for sale	110,830
(Gain) loss on other real estate	(7,739)
(Gain) on sale of premises and equipment	(1,230)
Amortization of security premiums and (accretion) of discounts, net	(63,001)
Changes in assets and liabilities:	
(Increase) decrease in other assets	(1,078,253)
Increase (decrease) in other liabilities	576,732
Net cash provided by operating activities	3,681,719
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of securities available for sale	826,979
Proceeds from maturities, calls and principal payments of investment securities	1,401,804
Proceeds from maturities, calls and principal payments of securities available for sale	2,422,512
Purchase of investment securities	--
Purchase of securities available for sale	(2,447,894)
Proceeds from sale of premises and equipment	1,230
Proceeds from sale of other real estate owned	355,561
Purchase of premises and equipment	(410,085)
Purchase of other investment	(749,000)
Improvements to other real estate owned	(2,774)
Net (increase) in loans	(17,178,114)
Net cash used in investing activities	(15,779,781)

CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase (decrease) in demand deposits, NOW accounts and saving accounts	(2,582,805)
Net increase in certificates of deposit	27,413,390
Federal Home Loan Bank advances	--
Federal Home Loan Bank principal repayments	(10,000,000)
Cash dividends paid	(1,092,198)
Issuance of common stock	22,932
Acquisition of common stock	(1,069,839)
Net cash provided by financing activities	12,691,480
Increase (decrease) in cash and cash equivalents	593,418
CASH AND CASH EQUIVALENTS	
Beginning	24,985,466
Ending	$ 25,578,884

See Notes to Consolidated Financial Statements.

FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
For Each of the Three Yeras in the Period Ended December 31, 2000

	2000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for:	
Interest	$ 5,704,615
Income taxes	$ 1,467,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES	
Other real estate acquired in settlement of loans	$ 345,048
Unrealized gain (loss) on securities available for sale, net	$ 427,822

See Notes to Consolidated Financial Statements.

FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For Each of the Three Years in the Period Ended December 31, 2000

	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS	ACCU OT CO HEN (LO
BALANCE, DECEMBER 31, 1997	$ 5,978,150	$ 1,207,680	$ 13,887,212	$ (9
Comprehensive income:				
Net income	--	--	2,441,545	
Other comprehensive income net of tax:				
Unrealized holding gains on securities available for sale, net of deferred income taxes of $50,847	--	--	--	
Less reclassification adjustment, net of income taxes of $5,669	--	--	--	
Other comprehensive income, net of tax	--	--	--	8
Total comprehensive income	--	--	--	
Cash dividends ($0.45 per share)	--	--	(831,797)	
Change in par value from $6.25 to $3.13 per share	9,264	(9,264)	--	
Acquisition of 75,238 shares of common stock	(235,194)	(1,198,416)	(64,898)	
BALANCE, DECEMBER 31, 1998	5,752,220	--	15,432,062	(
Comprehensive income:				
Net income	--	--	2,638,940	
Other comprehensive income (loss) net of tax, unrealized holding losses on securities available for sale, net of deferred income taxes of $185,692	--	--	--	(36
Total comprehensive income	--	--	--	
Cash dividends ($0.56 per share)	--	--	(1,005,168)	
Acquisition of 68,213 shares of common stock	(213,507)	--	(1,074,572)	
Exercise of stock options	14,023	--	28,263	
BALANCE, DECEMBER 31, 1999	5,552,736	--	16,019,525	(36
Comprehensive income:				
Net income	--	--	3,096,628	
Other comprehensive income net of tax:				

Unrealized holding gains on securities available for sale, net of deferred income taxes of $107,777				
Add reclassification adjustment net of income tax benefit of $37,682				
Other comprehensive income, net of tax	--	--	--	2
Total comprehensive income	--	--	--	
Cash dividends ($.64 per share)	--	--	(1,117,500)	
Acquisition of 63,120 shares of common stock	(197,566)	--	(872,273)	
Issuance of common stock	3,988	--	18,944	
BALANCE, DECEMBER 31, 2000	$ 5,359,158	$ --	$ 17,145,324	$ (

See Notes to Consolidated Financial Statements.

FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Each of the Three Years in the Period Ended December 31, 2000

NOTE 1. NATURE OF BANKING ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Fauquier Bankshares, Inc. and Subsidiaries (the Corporation) grant commercial, financial, agricultural, residential and consumer loans to customers in Virginia. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrowers.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and to the reporting guidelines prescribed by regulatory authorities. The following is a description of the more significant of those policies and practices.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Fauquier Bankshares, Inc. and its wholly-owned subsidiaries, The Fauquier Bank and Fauquier Bank Services, Inc. In consolidation, significant intercompany accounts and transactions have been eliminated.

SECURITIES

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities

with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

LOANS

The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and residential mortgage loans. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the Corporation's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Installment loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are

estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

BANK PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. Premises and equipment are depreciated over their estimated useful lives; leasehold improvements are amortized over the lives of the respective leases or the estimated useful life of the leasehold improvement, whichever is less. Depreciation and amortization are recorded on the accelerated and

straight-line methods.

Costs of maintenance and repairs are charged to expense as incurred. Costs of replacing structural parts of major units are considered individually and are expensed or capitalized as the facts dictate.

INCOME TAXES

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

DEFINED BENEFIT PLAN

The Corporation has a pension plan for its employees. Benefits are generally based upon years of service and the employees' compensation. The Corporation funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

EARNINGS PER SHARE

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury method.

WEALTH MANAGEMENT SERVICES DIVISION

Securities and other property held by the Wealth Management Services Division in a fiduciary or agency capacity are not assets of the Corporation and are not included in the accompanying consolidated financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

OTHER REAL ESTATE

Assets acquired through, or in lieu of, loan foreclosure

are held for sale and are initially recorded at the lower of loan balance or fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses.

USE OF ESTIMATES

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the valuation of foreclosed real estate and deferred tax assets.

ADVERTISING

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Advertising expenses of $258,997, $215,119 and $169,475 were incurred in 2000, 1999 and 1998, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to prior period balances to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 2000. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. The Corporation adopted this Statement effective January 1, 2001 and transferred securities with a book value of $3,979,645 and a market value of $3,980,765 to the available for sale category. Since the Corporation does not use derivative instruments and strategies, the adoption of the Statement did not have any effect on earnings or financial position.

NOTE 2. SECURITIES

The amortized cost of securities held to maturity, with unrealized gains and losses follows:

	DECEMBER 31, 2000		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZE (LOSSES)
Obligations of U.S. Government corporations and agencies	$ 1,588,984	$ 991	$ (4,83
Obligations of states and political subdivisions	2,390,661	5,103	(13
	$ 3,979,645	$ 6,094	$ (4,97

	DECEMBER 31, 1999		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZE (LOSSES)
Obligations of U.S. Government corporations and agencies	$ 2,885,488	$ --	$ (22,82
Obligations of states and political subdivisions	2,490,790	1,693	(5,75
	$ 5,376,278	$ 1,693	$ (28,57

The amortized cost and fair value of securities, held to maturity by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2000	
	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 510,079	$ 510,015
Due after one year through five years	1,880,582	1,885,613
Due after five through ten years	1,567,941	1,564,159
Due after ten years	21,043	20,978
	$3,979,645	$3,980,765

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost of securities available for sale, with unrealized gains and losses follows:

	DECEMBER 31, 2	
	AMORTIZED COST	GROSS UNREALIZED GAINS
Obligations of U.S. Government corporations and agencies	$ 9,706,764	$ 9,609
Obligations of states and political subdivisions	1,639,644	18,108
Restricted investments:		
Federal Home Loan Bank stock	1,150,000	--
Federal Reserve Bank stock	72,000	--
Community Bankers' Bank stock	50,038	--
FHLMC preferred stock	487,500	--
	$ 13,105,946	$ 27,717

	DECEMBER 31, 1	
	AMORTIZED COST	GROSS UNREALIZED GAINS
Obligations of U.S. Government corporations and agencies	$ 10,580,515	$ 5,376
Obligations of states and political subdivisions	682,719	327
Mutual funds	937,809	--
Restricted investments:		
Federal Home Loan Bank stock	1,150,000	--
Federal Reserve Bank stock	72,000	--
Community Bankers' Bank stock	50,000	--
FHLMC preferred stock	487,500	--

$ 13,960,543	$ 5,703

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of securities available for sale, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2000	
	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 615,903	$ 616,484
Due after one year through five years	2,253,585	2,212,259
Due after five years through ten years	2,840,894	2,829,085
Due after ten years	5,636,026	5,558,970
Equity securities	1,759,538	1,759,538
	$13,105,946	$12,976,336

For the years ended December 31, 2000 and 1998, proceeds from sales of securities available for sale amounted to $826,979 and $2,734,130, respectively. Gross realized gains amounted to $54,249 in 1998. Gross realized losses amounted to $110,830 and $37,576, respectively. The tax provision (benefit) applicable to these net realized gains and losses amounted to $(37,682) and $5,669, respectively. There were no sales of securities available for sale for the year ended December 31, 1999.

The carrying value of securities pledged to secure deposits and for other purposes amounted to $7,609,612 and $3,567,940 at December 31, 2000 and 1999, respectively.

NOTE 3. LOANS

A summary of the balances of loans follows:

	DECEMBER 31,	
	2000	1999
	(Dollars in Thousands)	
Mortgage loans on real estate:		
Construction and land development	$ 12,948	$ 11,746
Secured by farmland	381	903
Secured by 1 to 4 family residential	74,167	64,921

Other real estate loans	53,959	50,988
Commercial and industrial loans (except those secured by real estate)	17,148	16,689
Consumer installment loans	36,083	33,787
All other loans	5,873	4,868
Total loans	200,559	183,902
Less: Unearned income	126	115
Allowance for loan losses	2,554	2,284
Net loans	$197,879	$181,503

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. ALLOWANCE FOR LOAN LOSSES

Analysis of the allowance for loan losses follows:

	2000	1999
Balance at beginning of year	$ 2,284,348	$ 1,853,150
Provision charged to operating expense	457,498	695,000
Recoveries added to the allowance	254,698	63,368
Loan losses charged to the allowance	(442,511)	(327,170)
Balance at end of year	$ 2,554,033	$ 2,284,348

Information about impaired loans is as follows:

	2000	1999
Impaired loans for which an allowance has been provided	$ --	$ 75,933
Impaired loans for which no allowance has been provided	--	--
Total impaired loans	$ --	$ 75,933
Allowance provided for impaired loans, included in the allowance for loan losses	$ --	$ 7,593

	2000	1999	1998
Average balance in impaired loans	$ 12,804	$330,980	$545,286

Interest income recognized	$ --	$ 10,519	$ 15,853

No additional funds are committed to be advanced in connection with impaired loans.

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $121,057, $49,534 and $126,704 at December 31, 2000, 1999 and 1998, respectively. If interest on these loans had been accrued, such income would have approximated $3,509, $1,421 and $6,064 for 2000, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation has granted loans to executive officers, directors, their immediate families and affiliated companies in which they are principal shareholders, which amounted to $4,788,426 at December 31, 2000 and $4,184,901 at December 31, 1999. During 2000, total principal additions were $1,109,012 and total principal payments were $505,487.

NOTE 6. BANK PREMISES AND EQUIPMENT, NET

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2000	1999
Land	$ 864,667	$ 864,667
Buildings and improvements	5,967,455	5,786,079
Furniture and equipment	6,008,597	5,779,964
	12,840,719	12,430,710
Less accumulated depreciation and amortization	7,583,531	6,836,462
	$ 5,257,188	$ 5,594,248

Depreciation and amortization charged to operations totaled $747,145, $764,862 and $773,863 in 2000, 1999 and 1998, respectively.

NOTE 7. DEPOSITS

The aggregate amount of time deposits, in denominations of $100,000 or more at December 31, 2000 and 1999 was $24,420,250 and $12,952,343, respectively.

At December 31, 2000, the scheduled maturities of time deposits

are as follows:

2001	$51,128,187
2002	15,905,896
2003	1,201,129
2004	112,356
2005	5,590,065
	$73,937,633

NOTE 8. EMPLOYEE BENEFIT PLANS

The following tables provide a reconciliation of the changes in the defined benefit plan's obligations and fair value of assets over the three-year period ending December 31, 2000, computed as of October 1st of each respective year:

	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning	$ 3,339,553	$ 3,086,296
Service cost	178,513	193,629
Interest cost	248,451	229,513
Actuarial (gain) loss	40,973	19,907
Benefits paid	(70,580)	(189,792)
Benefit obligation, ending	$ 3,736,910	$ 3,339,553
CHANGE IN PLAN ASSETS		
Fair value of plan assets, beginning	$ 3,679,064	$ 3,154,626
Actual return on plan assets	831,151	714,230
Employer contributions	30,628	--
Benefits paid	(70,580)	(189,792)
Fair value of plan assets, ending	$ 4,470,263	$ 3,679,064
FUNDED STATUS	$ 733,353	$ 339,511
Unrecognized net actuarial (gain)	(1,170,638)	(726,229)
Unrecognized net obligation at transition	(208,761)	(227,740)
Unrecognized prior service cost	85,435	93,201
Accrued benefit cost included in other liabilities	$ (560,611)	$ (521,257)

The following table provides the components of net periodic benefit cost for the plan for the years ended December 31, 2000, 1999 and 1998:

	2000	1999
COMPONENTS OF NET PERIODIC BENEFIT COST		
Service cost	$ 178,513	$ 193,629
Interest cost	248,451	229,513
Expected return on plan assets	(328,706)	(267,066)
Amortization of prior service cost	7,766	7,766
Amortization of net obligation at transition	(18,979)	(18,979)
Recognized net actuarial gain	(17,063)	--
Net periodic benefit cost	$ 69,982	$ 144,863

The assumptions used in the measurement of the Corporation's benefit obligation are shown in the following table:

	2000	1999	1998
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31			
Discount rate	7.5%	7.5%	7.5%
Expected return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase	5.0%	5.0%	5.0%

The Corporation has a defined contribution retirement plan under Code Section 401(k) of the Internal Revenue Service covering employees who have completed 6 months of service and who are at least 18 years of age. Under the plan, a participant may contribute an amount up to 15% of their covered compensation for the year, subject to certain limitations. The Corporation may also make, but is not required to make, a discretionary matching contribution. The amount of this matching contribution, if any, is determined on an annual basis by the Board of Directors. The Corporation made contributions to the plan for the years ended December 31, 2000, 1999 and 1998 of $72,922, $63,057 and $61,566, respectively.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

As members of the Federal Reserve System, the Corporation's subsidiary bank is required to maintain certain average reserve balances. For the final weekly reporting period in the years ended December 31, 2000 and 1999, the aggregate amounts of daily average required balances were approximately $4,044,000 and $3,462,000, respectively.

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Corporation does not anticipate losses as a result of these transactions.

See Note 15 with respect to financial instruments with off-balance-sheet risk.

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Note 10. Income Taxes

The components of the net deferred tax assets included in other assets are as follows:

	2000	1999
Deferred tax assets:		
Allowance for loan losses	$734,545	$625,995
Accrued pension obligation	190,114	166,320
Interest on nonaccrual loans	1,193	1,797
Allowance on other real estate owned	--	652
Securities available for sale	44,067	189,528
	969,919	984,292
Deferred tax liabilities:		
Accumulated discount accretion	1,711	1,416
Accumulated depreciation	268,820	294,918
	270,531	296,334
Net deferred tax assets	$699,388	$687,958

Allocation of federal income taxes between current and deferred portions is as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Current tax expense	$ 1,586,492	$ 1,316,756	$ 1,080,017
Deferred tax (benefit)	(156,891)	(154,757)	(40,964)
	$ 1,429,601	$ 1,161,999	$ 1,039,053

The reasons for the difference between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	2000	1999	1998
Computed "expected" tax expense	$ 1,538,918	$ 1,292,319	$ 1,183,403
Decrease in income taxes resulting from:			
Tax-exempt interest income	(106,799)	(116,442)	(109,185)
Other	(2,518)	(13,878)	(35,165)
	$ 1,429,601	$ 1,161,999	$ 1,039,053

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. EARNINGS PER SHARE

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential dilutive common stock had no effect on income available to common shareholders.

	2000		1999		
	SHARES	PER SHARE AMOUNT	SHARES	PER SHARE AMOUNT	SHARES
Basic earnings per share	1,755,182	$ 1.76	1,802,165	$ 1.46	1,857,28
Effect of dilutive securities, stock options	11,591		15,967		18,35
Diluted earnings per share	1,766,773	$ 1.75	1,818,132	$ 1.45	1,875,64

Options on 80,060 shares and 61,978 shares of common stock were not included in computing diluted EPS in 2000 and 1999, respectively, because their effects were antidilutive.

NOTE 12. STOCK OPTION PLANS

STOCK-BASED COMPENSATION PLAN

In 1998, the Corporation adopted an incentive stock option plan under which options may be granted to certain key employees for purchase of the Corporation's stock. The effective date of the plan was April 21, 1998 with a ten-year term. The plan reserves for issuance 200,000 shares of the Corporation's common stock. The stock option plan requires that options be granted at an exercise price equal to at least 100% of the fair market value of the common stock on the date of the grant; however, for those individuals who own more than 10% of the stock of the Corporation, the option price must be at least 110% of the fair market value on the date of grant. Such options are generally not exercisable until three years from the date of issuance and generally require continuous employment during the period prior to exercise. The options will expire in no more than ten years after the date of grant. The plan was amended and restated effective January 1, 2000, to include non-employee directors and added an additional 90,000 shares to be available to directors.

DIRECTOR COMPENSATION PLANS

The Corporation maintains Nonemployee Director Stock Option Plans. Under the plan expiring in 1999, each director that was not an employee of the Corporation or its subsidiary received an option grant covering 1,120 shares of Corporation common stock on April 1 of each year during the five-year term of the plan. The first grant under the plan was made on May 1, 1995. The exercise price of awards was fixed at the fair market value of the shares on the date the option is granted. During the term of the plan, a total of 60,480 options for shares of common stock were granted. Effective January 1, 2000, the Omnibus Stock Ownership and Long-Term Incentive Plan for employees was amended and restated to include non-employee directors. The plan has a ten-year term and the first grant under the plan was made May 24, 2000. The exercise price of awards is fixed at the fair market value of the shares on the date the option is granted. During the term of the plan, a total of 90,000 options for shares of common stock may be granted. The plan provides for an annual

issuance of 1,867 options to non-employee directors during their initial three-year term to achieve a total share holding of 5,600. The annual issuance of options to nonemployee directors subsequent to their initial three-year term requires Board action each year with a recommended level of 1,000 options per nonemployee director per year. The options granted under both Plans are not exercisable for six months from the date of grant except in the case of death or disability. Options that are not exercisable at the time a director's services on the Board terminates for reason other than death, disability or retirement

in accordance with the Corporation's policy will be forfeited.

Grants under the plans are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for grants under the plans. Had compensation cost for the stock-based compensation plans been determined based on the grant date fair value of awards (the method described in FASB No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown below:

		December 31,		
		2000	1999	1998
Net income	As reported	$ 3,096,628	$ 2,638,940	$ 2,441,545
	Pro forma	$ 2,872,942	$ 2,511,546	$ 2,287,520
Earnings per share	As reported	$ 1.76	$ 1.46	$ 1.31
	Pro forma	$ 1.64	$ 1.39	$ 1.27
Earnings per share - assuming dilution	As reported	$ 1.75	$ 1.45	$ 1.30
	Pro forma	$ 1.63	$ 1.38	$ 1.22

The fair value of each grant is estimated at the grant date using the Black-Scholes Option-Pricing Model with the following weighted average assumptions:

	December 31,		
	2000	1999	1998
Dividend yield	0.65%	0.60%	0.58%
Expected life	10 years	10 years	10 years
Expected volatility	18.38%	17.88%	15.65%
Risk-free interest rate	6.70%	6.50%	4.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status for both the Stock-Based Compensation Plans and the Director Compensation Plan is presented below:

	2000		1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weight Averag Exerci Price
Outstanding at January 1	94,458	$ 19.93	67,257	$ 21.0
Granted	39,848	16.25	31,681	19.0
Exercised	--		(4,480)	
Outstanding at December 31	134,306	$ 18.46	94,458	$ 19.9
Exercisable at end of year	70,347		56,000	
Weighted-average fair value per option of options granted during the year	$ 7.34		$ 6.83	

The status of the options outstanding as of December 31, 2000 for both the Stock-Based Compensation and Director Compensation Plans is as follows:

	Options Outstanding		Options Exercisable	
Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weight Aver Exerc Pric
4.33 years	8,960	$ 8.75	8,960	$ 8.
5.25 years	11,200	10.13	11,200	10.
6.25 years	12,320	12.50	12,320	12.
7.25 years	11,200	20.00	11,200	20.
7.66 years	17,977	21.00	--	--
8.25 years	12,320	19.50	12,320	19.
8.66 years	20,481	19.00	--	--
9.6 years	39,848	16.25	14,347	16.
	134,306	$16.54	70,347	$14.

The Corporation also maintains a Director Deferred Compensation Plan (the "Deferred Compen- sation Plan"). This plan provides that any non-employee director of the Corporation or the Bank may elect to defer receipt of all or any portion of his or her compensation as a director. A participating director may elect to

have amounts deferred under the Deferred Compensation Plan held in a deferred cash account, which is credited on a quarterly basis with interest equal to the highest rate offered by the Bank at the end of the preceding quarter. Alternatively, a participant may elect to have a deferred stock account in which deferred amounts are treated as if invested in the Corporation's common stock at the fair market value on the date of deferral. The value of a stock account will increase and decrease based upon the fair market value of an equivalent number of shares of common stock. In addition, the deferred amounts deemed invested in common stock will

be credited with dividends on an equivalent number of shares. Amounts considered invested in the Corporation's common stock are paid, at the election of the director, either in cash or in whole shares of the common stock and cash in lieu of fractional shares. Directors may elect to receive amounts contributed to their respective accounts in one or up to five installments.

NOTE 13. FEDERAL HOME LOAN BANK ADVANCES

The Corporation's fixed-rate debt of $13,000,000 at December 31, 2000 matures through 2008. At December 31, 2000 and 1999, the interest rates ranged from 4.89 percent to 5.51 percent and from 4.89 percent to 5.95 percent, respectively. At December 31, 2000 and 1999, the weighted average interest rates were 5.27 percent and 5.57 percent, respectively.

Advances on the line are secured by all of the Corporation's first lien loans on one-to-four unit single-family dwellings. As of December 31, 2000, the book value of these loans totaled approximately $69,978,000. The amount of the available credit is limited to seventy-five percent of qualifying collateral. Any borrowings in excess of the qualifying collateral requires pledging of additional assets.

The contractual maturities of Federal Home Loan Bank advances are as follows:

	December 31,	
	2000	1999
Due in 2000	$ --	$10,000,000
Due in 2008	13,000,000	13,000,000
	$13,000,000	$23,000,000

An advance dated June 19, 1998 has an imbedded call option that gives the Federal Home Loan Bank the option to call after 1 year and quarterly thereafter. The remaining advances also have imbedded call options that give the Federal Home Loan Bank the option to call only on the five-year anniversary date.

NOTE 14. DIVIDEND LIMITATIONS ON AFFILIATE BANK

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2000, the aggregate amount of unrestricted funds, which could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval, totaled $1,498,251.

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NOTE 15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments and as it does for on-balance-sheet instruments.

At December 31, 2000 and 1999, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2000	1999
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$54,509,321	$54,736,121
Standby letters of credit	$ 6,341,922	$ 5,183,606

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 payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Standby letters of credit are conditional commitments issued by

the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INTEREST RATE RISK

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, SHORT-TERM INVESTMENTS AND FEDERAL FUNDS SOLD

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

SECURITIES

For securities and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, 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.

LOAN RECEIVABLES

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

ACCRUED INTEREST

The carrying amounts of accrued interest approximate fair value.

DEPOSIT LIABILITIES

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and

certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

FEDERAL HOME LOAN BANK ADVANCES

The fair values of the Corporation's Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of standby letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At December 31, 2000 and 1999, the carrying amounts of loan commitments and standby letters of credit approximated fair values.

The estimated fair values of the Corporation's financial instruments are as follows:

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	F V
	(Thousands)		(Thousands)	
Financial assets:				
Cash and short-term investments	$ 10,891	$ 10,891	$ 10,975	$ 1
Federal funds sold	14,688	14,688	14,010	1
Securities	16,956	16,957	18,779	1
Loans, net	197,879	196,918	181,503	18

Accrued interest receivable	1,641	1,641	1,098	
Financial liabilities:				
Deposits	$212,103	$196,068	$187,273	$17
FHLB advances	13,000	12,892	23,000	2
Accrued interest payable	710	710	330	

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Corporation's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

NOTE 17. OTHER OPERATING EXPENSES

The principal components of "Other operating expenses" in the Consolidated Statements of Income are:

	2000	1999
Advertising and business development	$ 381,204	$ 337,503
Bank card	408,342	401,617
Data processing	644,911	581,729
Non-loan charge-offs	443,194	607,319
Postage and supplies	253,206	265,319
Professional and consulting fees	855,637	598,423
Taxes, other than income	235,193	231,279
Telephone	175,538	233,360
Other (no items exceed 1% of total revenue)	857,613	780,246
	$4,254,838	$4,036,795

NOTE 18. CONCENTRATION RISK

The Corporation maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks exceeds the federally insured limits is approximately $6,022,058 at December 31, 2000.

NOTE 19. CAPITAL REQUIREMENTS

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2000 and 1999, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2000, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Corporation's and Subsidiary's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk.

MINIMUM CAPITAL

	ACTUAL		REQUIREMENT	
	AMOUNT	RATIO	AMOUNT	RA
As of December 31, 2000:			(Amount in Thousand	
Total Capital (to Risk Weighted Assets):				
Consolidated	$ 24,859	13.2%	$ 15,057	8.
The Fauquier Bank	$ 24,939	13.3%	$ 15,057	8.
Tier 1 Capital (to Risk Weighted Assets):				
Consolidated	$ 22,504	12.0%	$ 7,259	4.
The Fauquier Bank	$ 22,584	12.0%	$ 7,529	4.
Tier 1 Capital (to Average Assets):				
Consolidated	$ 22,504	9.1%	$ 9,864	4.
The Fauquier Bank	$ 22,584	9.2%	$ 9,864	4.
As of December 31, 1999:				
Total Capital (to Risk Weighted Assets):				
Consolidated	$ 23,382	13.4%	$ 13,939	8.
The Fauquier Bank	$ 23,497	13.5%	$ 13,939	8.
Tier 1 Capital (to Risk Weighted Assets):				
Consolidated	$ 21,204	12.2%	$ 6,969	4.
The Fauquier Bank	$ 21,319	12.2%	$ 6,969	4.
Tier 1 Capital (to Average Assets):				
Consolidated	$ 21,204	8.8%	$ 9,630	4.
The Fauquier Bank	$ 21,319	8.9%	$ 9,630	4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20. SUBSEQUENT EVENT

On February 28, 2000, the Bank was first advised by its accountants as to the possible misappropriation of cash in the approximate amount of $437,000. The Bank immediately reported the loss to its insurance carrier and began an aggressive investigation of the misappropriation. The $437,000 loss was recorded in the year ended December 31, 1999. Based on the ongoing investigation, an additional loss of $130,000 was recorded in the year ended December 31, 2000.

On January 29, 2001, the Bank recovered $542,000, net of deductible, from its insurance carrier for losses resulting from a misappropriation of cash discovered in early 2000. This recovery will be recorded as income in the first quarter of the year ended December 31, 2001.

NOTE 21. PARENT CORPORATION ONLY FINANCIAL STATEMENTS

FAUQUIER BANKSHARES, INC.
(Parent Corporation Only)

Balance Sheets
December 31, 2000 and 1999

	December 31,
	2000
ASSETS	
Cash on deposit with subsidiary bank	$ 46,624
Investment in subsidiaries, at cost, plus equity in undistributed net income	22,498,032
Dividend receivable	291,072
Total assets	$ 22,835,728
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Dividend payable	$ 291,072
Other liabilities	125,717
	416,789
SHAREHOLDERS' EQUITY	
Common stock	5,359,158
Retained earnings, which are substantially distributed earnings of subsidiaries	17,145,324
Accumulated other comprehensive (loss)	(85,543)
	22,418,939
Total liabilities and shareholders' equity	$ 22,835,728

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FAUQUIER BANKSHARES, INC.
(Parent Corporation Only)

STATEMENTS OF INCOME

For Each of the Three Years in the Period Ended December 31, 2000

	2000

REVENUE,	
dividends from subsidiaries	$ 2,237,339
EXPENSES	
Legal and professional fees	35,613
Directors' fees	6,632
Miscellaneous	15,003
Total expenses	57,248
Income before income tax (benefit) and equity in undistributed net income of subsidiaries	2,180,091
Income tax (benefit)	(19,464)
Income before equity in undistributed net income of subsidiaries	2,199,555
Equity in undistributed net income of subsidiaries	897,073
Net income	$ 3,096,628

FAUQUIER BANKSHARES, INC.
(Parent Corporation Only)

STATEMENTS OF CASH FLOWS
For Each of the Three Years in the Period Ended December 31, 2000

	2000
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 3,096,628
Adjustments to reconcile net income to net cash provided by operating activities:	
Undistributed earnings of subsidiaries	(897,074)
(Increase) in undistributed dividends receivable from subsidiaries	(25,302)
(Increase) decrease in other assets	--
Increase (decrease) in other liabilities	(25,910)
Net cash provided by operating activities	2,148,342
CASH FLOWS FROM FINANCING ACTIVITIES	

Cash dividends paid	(1,092,198)
Issuance of common stock	22,932
Acquisition of common stock	(1,069,839)
Net cash used in financing activities	(2,139,105)
Increase (decrease) in cash and cash equivalents	9,237
CASH AND CASH EQUIVALENTS	
Beginning	37,387
Ending	$ 46,624

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

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning Bankshares executive officers is contained herein. All other information concerning Bankshares required by this item is contained in Bankshares' definitive proxy statement for the 2001 annual meeting of shareholders, to be filed within 120 days of the fiscal year ended December 31, 2000 and is incorporated herein by reference.

NAME	CLASS I POSITION HELD WITH COMPANY AND/OR PRINCIPAL OCCUPATIONS AND DIRECTORSHIPS DURING THE PAST FIVE YEARS	FIRST YEAR AS OFFICER OF COMPANY
C. Hunton Tiffany	Chairman of the Board of Bankshares and TFB; President Fauquier Bank Services, Inc.; President of Bankshares since 1984; President of the TFB since 1982; Director of TFB since 1974	1984
Randy K. Ferrell	Senior Vice President of Bankshares;	1994

	Executive Vice President of TFB, Commercial and Retail Banking and Management Information Systems Division since 2001	

Rosanne T. Gorkowki	Senior Vice President of Bankshares; Senior Vice President of TFB, Human Resources and Administration Division since 2000.	1999
Eric P. Graap	Senior Vice President and Chief Financial Officer of Bankshares; Senior Vice President and Chief Financial Officer of TFB; since 2000.	2000
Gary R. Shook	Senior Vice President of Bankshares; Senior Vice President of TFB, Wealth Management Division; since 2001.	1995

C. Hunton Tiffany has been an employee of TFB since 1965. He was elected to TFB's Board in 1974 and to Bankshares' Board in 1984. He has served as President of TFB since 1982 and Bankshares since 1984, and is currently Chairman of both Boards of Directors. Mr. Tiffany is President and a Director of Fauquier Bank Services, Inc., a subsidiary of TFB. Mr. Tiffany serves on the Executive, Investment, Long Range Planning Committee and Trust Committees.

Randy K. Ferrell joined TFB in September 1994. He serves as Executive Vice President of TFB, and heads the Commercial and Retail Banking and Management Information Systems Division, and he serves as Executive Vice President of Bankshares. Mr. Ferrell is a member of Senior Management, and also serves on the Asset/Liability Management Committee of TFB. Mr. Ferrell is an Executive Vice President and Director of Fauquier Bank Services, Inc., a subsidiary of TFB. He oversees all aspects of the lending and retail branching functions. He participates in presentations to the Boards of TFB and Bankshares, and leads the presentation of new loans and analysis of the loan portfolio at the Executive Committee meetings.

Rosanne T. Gorkowski joined TFB in 1999. She serves as Senior Vice President, Human Resoures and Administration of Bankshares. As head of Human Resources and Administration Division, she is responsible for managing the human resources and administration functions, including compensation and performance management, benefits, training, EEO/AAP, employee relations, facilities, and purchasing. From 1994 to 1997, Mrs. Gorkowski was Managing Partner of Windsong Associates, a management consulting firm specializing in Human Resource services. From 1997 to 1999, she was director of Human Resources for Walcoff Associates, Inc., an information technology company. Mrs. Gorkowski is a member of Senior Management, and also serves on the Human Resources, Asset/Liability Management and Strategic Planning Committees of TFB. She participates in presentations to the Boards of TFB and Bankshares.

Eric P. Graap joined TFB in 2000. He serves as Senior Vice President and Chief Financial Officer of TFB and Senior Vice President and Chief Financial Officer of Bankshares. As head of Support Services Division, he directs the activities of the Accounting, Data Processing and Investment departments and is responsible for the integrity of the financial systems of the organization. From 1994 to 2000, Mr. Graap was employed at The Community Development Corporation, a community development financial intermediary located in New York City, as Chief Financial Officer and Treasurer. Mr. Graap is a member of Senior Management, and also serves on the Asset/Liability Management and Strategic Planning Committees of TFB. He participates in presentations to the Boards of TFB and Bankshares.

Gary R. Shook joined TFB in January 1995. He serves as Senior Vice President, and heads the Wealth Management Division, including the Investment Sales and Trust Services areas, and Senior Vice President of Bankshares. Mr. Shook serves as a Senior Vice President and Director of Fauquier Bank Services, Inc., a

subsidiary of TFB. Mr. Shook participates in presentations to the Boards of TFB and Bankshares, and reports to the Trust Committee of the Board of Directors on all trust activities. He is a member of Senior Management and serves on the Asset/Liability Management and Strategic Planning Committees of TFB.

COMMITTEES OF THE BOARD

During the year ended December 31, 2000, the Board of Directors acted as a Committee of the whole as to all matters. The three Committees of the Company are the Executive, Audit and Committee on Board Governance.

MEETINGS OF BOARD OF DIRECTORS

During the year ended December 31, 2000, the Board of Directors of Bankshares held nine meetings.

ITEM 11: EXECUTIVE COMPENSATION

Information relating to executive compensation is contained in Bankshares' definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days of the fiscal year ended December 31, 2000 and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is contained in Bankshares' definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days of the fiscal year ended December 31, 2000 and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is contained in Bankshares' definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days of the fiscal year ended December 31, 2000 and is incorporated herein by reference.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8K

(a) (1) - Financial Statements

The following consolidated financial statements of Fauquier Bankshares Inc. and subsidiaries are filed as part of this document under Item 8. Financial Statements and Supplementary Data.

Independent Auditor's Report on the Consolidated Financial Statements

Consolidated Balance Sheets - December 31, 2000 and December 31, 1999

Consolidated Statements of Income - Years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flow - Years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Changes in Shareholders' Equity - December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements - Years ended December 31, 2000, 1999 and 1998

(a) (2) - Financial Statement Schedules

All schedules to the Consolidated Financial Statements required by Article 9 of Regulation S-X are omitted since they are either not applicable or the required information is set forth in the consolidated financial statements or notes thereto.

(a) (3) - Exhibits

EXHIBIT NUMBER	
(3)(i)	Articles of Incorporation of Fauquier Bankshares, Inc. (including amendments)*
(3)(ii)	Bylaws of Fauquier Bankshares, Inc.*
(10)(i)	Fauquier Bankshares, Inc. Omnibus Stock Ownership and Long Term Incentive Plan, Amended and Restated Effective January 1, 2000**
(11)	Statement regarding computation of per share earnings
(21)	Subsidiaries of the Registrant (Incorporated herein by reference to Part I of this Form 10-K)

* Incorporated by reference to Bankshares' Securities Exchange Act of 1934 ("Exchange Act") Registration Statement on Form 10, filed with the Securities and Exchange Commission on April 16, 1999 and amended June 10, 1999.

** Incorporated by reference to Bankshares' definitive proxy statement for the 2001 annual meeting of shareholders to be filed within 120 days of the fiscal year ended December 31, 2000.

(b) Reports on Form 8-K Filed in the fourth quarter of 2000

None.

SIGNATURES

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

FAUQUIER BANKSHARES, INC.

/s/ C. Hunton Tiffany

C. Hunton Tiffany
President and Chief Executive Officer
Dated: April 03, 2001

/s/ Eric P. Graap

Eric P. Graap
Senior Vice President and Chief Financial Officer
Dated: April 03, 2001

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

Signature	Title	Date
/s/ C. Hunton Tiffany C. Hunton Tiffany	President, Chief Executive Officer, Director	April 03, 2001
/s/ Alexander G. Green, Jr. Alexander G. Green, Jr.	Director	April 03, 2001
/s/ Stanley C. Haworth Stanley C. Haworth	Director	April 03, 2001
/s/ John J. Norman, Jr. John J. Norman, Jr.	Director	April 03, 2001
/s/ Douglas C. Larson Douglas C. Larson	Director	April 03, 2001
/s/ C.H. Lawrence, Jr. C.H. Lawrence, Jr.	Director	April 03, 2001
/s/ D. Harcourt Lees, Jr. D. Harcourt Lees, Jr.	Director	April 03, 2001

Signature	Title	Date
/s/ Randolph T. Minter ---------------------------- Randolph T. Minter	Director	April 03, 2001
/s/ B.S. Montgomery ---------------------------- B.S. Montgomery	Director	April 03, 2001
/s/ H.P. Neale ---------------------------- H.P. Neale	Director	April 03, 2001
/s/ Pat H. Nevill ---------------------------- Pat H. Nevill	Director	April 03, 2001
/s/ Henry M. Ross ---------------------------- Henry M. Ross	Director	April 03, 2001
/s/ H. Frances Stringfellow ---------------------------- H. Frances Stringfellow	Director	April 03, 2001