FAUQUIER BANKSHARES INC
Form 10-K/A
April 24, 2002

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

AMENDMENT NO. 2
TO
FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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
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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 or any amendment to this Form 10-K. ( ).

The aggregate market value of the shares of the registrant's common stock held by "non-affiliates" of the registrant, based upon the closing sale price of its common stock on the NASDAQ SmallCap Market System on March 21, 2002, was approximately $38.5 million. Shares of common stock held by each officer, director and holder of 5% or more of the registrant's outstanding common stock 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.

The registrant had 1,655,296 shares of common stock outstanding as of March 21, 2002.

Explanation

This Amendment No. 2 to the Fauquier Bankshares, Inc. Form 10-K filed with the Securities and Exchange Commission (the "Commission") on March 26, 2002, as amended by Amendment No. 1 filed with the Commission on March 27, 2002 (the "Form 10-K"), is being filed solely for the purposes of correcting: (i) two percentages relating to non-performing loans in the second paragraph under "Asset Quality" in Management's Discussion and Analysis of Financial Condition and Results of Operation contained in Item 7 (the "MD&A"), (ii) disclosures relating to the 2001 to 2000 comparison of the securities portfolio valuation account in the third paragraph under "Capital Resources and Liquidity" in the MD&A, (iii) the figures for 2001 compared to 2000 contained in the Rate/Volume Variance Table under "Rate/Volume Analysis" in the MD&A, and (iv) disclosures relating to exercisable stock options in Note 12 to the consolidated financial statements contained in Item 8.

PART II

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 accompanying notes appearing elsewhere in this Form 10-K. In addition to the historical information contained herein, this report on Form 10-K 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," "may," "will" or similar expressions. Although we believe our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions, or expectations will be achieved. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain, and actual results, performances or achievements could differ materially from those contemplated. Factors that could have a material adverse effect on our operations and future prospects 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 our market area and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements contained herein and you should not place undue reliance on such statements, which reflect our position as of the date of this report.

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 consolidated 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 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.

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COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND DECEMBER 31, 2000

Net income of $3.5 million in 2001 was a 13.5% increase from 2000 net income of $3.1 million. Earnings per share (EPS) on a fully diluted basis were $2.02 in 2001 compared to $1.75 in 2000. Profitability as measured by return on average equity increased from 14.1% in 2000 to 14.7% in 2001.

On January 29, 2001, TFB recovered $358,000, net of taxes, or $0.21 per diluted share, from its insurance carrier for losses associated with the misappropriation of cash. Certain expenses associated with a misappropriation of cash reduced 2000 and 1999 earnings by $86,000 and $288,000, net of tax, respectively.

On December 6, 2001, earnings were reduced by $378,000 net of tax benefit, or $0.22 per diluted share, due to an extraordinary expense associated with the early payoff of the FHLB of Atlanta advances. The restructuring of TFB's balance sheet through the early payoff of the FHLB of Atlanta borrowings resulted from the greater-than-anticipated success of TFB's retail deposit retention campaign. Deposits grew by $31.6 million, or 14.9%, from December 31, 2000 to December 31, 2001. The benefit of this restructuring strategy, in addition to increasing TFB's flexibility in its asset/liability management process, is the reduction of interest expense during 2002 and beyond. This anticipated reduction in interest expense is projected to more than offset the one-time extraordinary expense of the early payoff.

NET INTEREST INCOME. Total interest income grew $1.8 million or 9.9% to $19.8 million in 2001 from $18.0 million in 2000. This increase was primarily the result of growth in loan and investment security balances. Average loan balances increased from $193.4 million in 2000 to $208.8 million in 2001. The average yield on loans decreased to 8.51% in 2001 compared with 8.64% in 2000. Together, there was a $1.0 million increase in interest and fee income from loans for the year 2001 compared with year 2000. Average investment security balances increased $10.0 million from $16.9 million in 2000 to $26.9 million in 2001, primarily due to the excess liquidity generated from aforementioned retail deposit retention campaign. The tax-equivalent average yield on investments declined from 6.08% in 2000 to 5.84% in 2001. Together, there was an increase in interest and dividend income on security investments of $0.5 million or 54.7%, from $1.0 million in 2000 to $1.5 million in 2001.

Total interest expense increased $1.1 million or 18.7% from 2000 to 2001 primarily due to the growth in deposits. Average deposit balances grew $33.4 million, primarily in demand deposits and time certificates of deposit. The average rate on interest-bearing liabilities increased slightly from 3.52% in 2000 to 3.54% in 2001 due to the fourth quarter 2000 growth in higher rate certificates of deposit. The average rate on certificates of deposit increased from 5.11% in 2000 to 5.57% in 2001. During the fourth quarter of 2001, many of these higher rate certificates of deposit either repriced into lower rate certificates of deposit, or transferred into lower rate NOW, money market account, and savings account rates. As result, the average rate on interest-bearing liabilities is expected to decline in 2002.

Net interest income for 2001 increased $0.6 million or 5.4% to $12.6 million for the year ended December 31, 2001 from $11.9 million for the year ended December 31, 2000. This increase resulted from an increase in total average earning assets from $217.7 million in 2000 to $254.6 million in 2001. The percentage of average earning assets to total assets increased slightly in 2001 to 93.0% from 92.6%. TFB's net interest margin decreased from 5.56 % in 2000 to 5.02% in 2001.

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 may increase in 2002 as average interest-earning assets increase, together with the net interest margin projected to increase in 2002 as a result of the fourth quarter 2001 repricing or transfer of higher cost certificates of deposit into lower cost deposits, as well as the December 2001 payoff of the FHLB of Atlanta advances.

PROVISION FOR LOAN LOSSES. The provision for loan losses was $350,000 for 2001 and $457,000 for 2000. The amount of the provision for loan loss for 2001 and 2000 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. During 2001, TFB refined its policies, guidelines, and methods for determining the allowance for loan losses, and allocating the allowance among various loan categories. Greater weight was given to the loss history by loan category, prolonged changes in portfolio delinquency trends by loan category, and changes in economic trends. 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 non-interest income increased by $1.1 million from $2.7 million for 2000 to $3.8 million for 2001. Excluding the previously discussed non-loan charge-off insurance recovery of $542,000 before taxes, total non-interest income increased by $563,000, or 20.6%. Non-interest income is derived primarily from non-interest fee income, which consists primarily of fiduciary and other Wealth Management fees, service charges on deposit accounts, and other fee income. In 2001, the increase stemmed from a $106,000 increase in Wealth Management fees, and a $228,000 increase in service charges on deposit accounts. Major factors in the increase in service charges on deposit accounts were management's focus on meeting the needs of its customers with new value-added, fee-based products such as "Courtesy Pay," as well as, the impact of TFB's deposit base increasing 14.9% from year-end 2000 to year-end 2001.

NON-INTEREST EXPENSE. Total non-interest expenses increased $700,000, or 7.2% in 2001 from 2000. The primary component of the increase was an increase in salaries and employees' benefits of $743,000, or 18.1%, primarily due to the increase in full-time equivalent personnel from approximately 104 at year-end 2000 to 114 at year-end 2001, as well as customary annual salary increases and increases in medical insurance benefits. The growth in personnel primarily reflects the expansion of the Wealth Management Services division and the August 2001 opening of the Old Town-Manassas branch office. In addition, occupancy expenses increased $125,000, or 26.7%, primarily due to rent and other leasehold expenses associated with the new Old Town-Manassas office. Other operating expenses declined from $4.3 million in 2000 to $4.1 million in 2001 due to the absence of investigation-related expenses as a result of the misappropriation of cash referred to above.

INCOME TAXES. Income tax expense, excluding the tax benefit generated by the extraordinary expense on the prepayment of the FHLB of Atlanta advances, increased by $362,000 for the year ended December 31, 2001 compared to the year ended December 31, 2000. The effective tax rates were 31.5% for 2001 and 31.6% for 2000. The effective tax rate differs from the statutory federal income tax rate of 34% due to TFB's investment in tax-exempt loans and securities.

The following table presents a quarterly summary of earnings for the last two years. In 2001, earnings exhibited an increasing profitability from recurring sources, primarily the result of the steady and continuous growth in net interest income and fees on deposits.

EARNINGS
(In Thousands)

	Three Months Ended 2001					T
	DEC. 31	SEP. 30	JUNE 30	MAR. 31	DEC. 31	S
Interest income	$ 4,962	$ 5,019	$ 5,003	$ 4,801	$ 4,741	$
Interest expense	1,622	1,887	1,903	1,817	1,801	
Net Interest Income	3,340	3,132	3,100	2,984	2,940	
Provision for loan losses	75	75	100	100	0	
Net interest income after provision for loan losses	3,265	3,057	3,000	2,884	2,940	
Other Income	946	873	754	1,263	653	
Other Expense	2,749	2,530	2,572	2,507	2,629	
Income before income taxes	1,462	1,400	1,182	1,640	964	
Income tax expense	464	443	371	513	298	
Income before extraordinary item	998	957	811	1,127	667	
Extraordinary item	(378)	0	0	0	0	

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Net income	620	957	811	1,127	667
	=====	=====	=====	=====	=====
Net income per share, basic before	$ 0.59	$ 0.56	$ 0.47	$ 0.66	$ 0.39
Extraordinary item	(0.22)	--	--	--	--
Net income per share, basic	$ 0.37	$ 0.56	$ 0.47	$ 0.66	$ 0.39
Net income per share, diluted before	$ 0.57	$ 0.55	$ 0.47	$ 0.65	$ 0.39
Extraordinary item	(0.22)	--	--	--	--
Net income per share, diluted	$ 0.35	$ 0.55	$ 0.47	$ 0.65	$ 0.39

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COMPARISON OF OPERATING RESULTS FOR THE YEARS 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.

As previously discussed 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, TFB was first advised by its accountants as to the possible misappropriation of cash in the approximate amount of $437,000. TFB immediately reported the loss to its insurance carrier and began an aggressive investigation of the misappropriation. The $437,000 loss, or $288,000loss 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, TFB recovered $542,000, or $358,000 net of taxes, from its insurance carrier for these losses.

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 relatively stable at 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 in 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 resulted from an increase 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 in 2000. The percentage of average earning assets to total assets decreased slightly in 2000 to 92.6% from 92.9%. TFB's net interest margin increased from 5.35% in 1999 to 5.56% in 2000.

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.

NON-INTEREST INCOME. Total non-interest income increased by $298,000, or 12.2% from $2.4 million for 1999 to $2.7 million for 2000. Non-interest 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 an $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 non-interest 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 customary annual salary increases. In addition, other operating expenses increased $218,000, or 5.4%, primarily due to investigation-related expenses as a 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.

COMPARISON OF DECEMBER 31, 2001 AND DECEMBER 31, 2000 FINANCIAL CONDITION

Total assets were $285.2 million at December 31, 2001, an increase of 14.1% or $35.3 million from $249.9 million at December 31, 2000. Balance sheet categories reflecting significant changes included investment securities, total loans, deposits, and FHLB of Atlanta advances. Each of these categories is discussed below.

INVESTMENT SECURITIES. Total investment securities were $36.9 million at December 31, 2001, reflecting an increase of $19.9 million from $17.0 million at December 31, 2000. The increase was the result of investing funds, generated by retail deposit growth, primarily into mortgage-backed securities with shorter-term durations of one to three years. TFB adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," effective January 1, 2001, and transferred securities with a book value of $4.0 million and a market value of $4.0 million to the available for sale category. At December 31, 2001, all $36.9 million of investment securities were available for sale. 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 gain, net of tax, of $227,000 at December 31, 2001 compared to an unrealized loss, net of tax, of $86,000 at December 31, 2000.

LOANS. Total net loan balance after allowance for loan losses was $207.5 million at December 31, 2001, which represents an increase of $9.6 million or 4.8% from $197.9 million as of December 31, 2000. The majority of the increase was in commercial real estate loans, which increased $8.9 million from 2000 to 2001. In addition, construction loans secured by real estate increased $3.9 million over the same time period. TFB's loans are made primarily to customers located within its local trade area.

DEPOSITS. For the year ended December 31, 2001, total deposits grew $31.6 million or 14.9% when compared with total deposits one year earlier. The growth in deposits was primarily in noninterest-bearing deposits, which increased by $11.3 million and interest-bearing deposits, which increased by $20.4 million.

FHLB ADVANCES. Amounts borrowed from the FHLB of Atlanta increased from $13 million at December 31, 2000 to $15 million at December 31, 2001. The term structure on $10 million of the advances was 5 years with a 2-year call option in May 2003. The remaining $5 million has a term structure of 10 years with a 5-year call option in October 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-performing loans totaled approximately $913,000, or .43% of total loans at December 31, 2001, as compared with $121,000, or .06% of total loans at December 31, 2000. Non-performing loans as a percentage of the allowance for loan losses were 3.20% and 4.7% at December 31, 2001 and 2000, respectively.

Loans that are 90 days past due and accruing interest totaled $541,000 and $800,000 at December 31, 2001 and 2000, respectively. At December 31, 2001, approximately $488,000 of the $541,000 consisted of three loans, all secured by real estate. No loss is anticipated on these three loans.

There are no loans other than those disclosed above as either non-performing or impaired where known information about the borrower has 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. To management's knowledge, no concentration of loans to borrowers engaged in similar activities exceeds 10% of total loans.

CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity totaled $24.2 million at December 31, 2001 compared with $22.4 million at December 31, 2000. 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 repurchase shares directly from shareholders. As a result of this action, Bankshares repurchased 60,238 shares, as adjusted for the two for one stock split, or 3.2% of shares outstanding on December 31, 1998, for $1.2 million. Exclusive of the Dutch Auction, Bankshares initiated an open market buyback program in 1998, through which it repurchased 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; 63,120 shares at a cost of $1.1 million in 2000; and 38,958 shares at a cost of $0.9 million in 2001.

On January 18, 2002, the board of directors of Bankshares approved the company's participation during 2002, in the approximate amount of $4,000,000, in a pool of subordinated debt securities to be issued by Bankshares and other financial institutions to a trust in a method generally referred to, as a trust preferred financing. Bankshares anticipates the closing of this transaction in late March 2002. When and if any trust-preferred securities are sold, Bankshares intends to use the proceeds for the purpose of expansion and the repurchase of additional shares of its common stock. Under applicable regulatory guidelines, trust preferred securities can be treated as Tier 1 capital for purposes of the Federal Reserve's capital guidelines for bank holding companies as long as the trust preferred securities and all other cumulative preferred securities of the bank holding company together do not exceed 25% of Tier 1 capital.

The securities portfolio valuation account increased its unrealized gain after tax to $227,000 at December 31, 2001 compared to an unrealized loss of $86,000 at December 31, 2000.

As discussed above under "Government Supervision and Regulation," banking regulations have established minimum capital requirements for financial institutions, including risk-based capital ratios and leveraged ratios. As of December 31, 2001, the appropriate regulatory authorities have categorized Bankshares and TFB as "well capitalized."

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 funding 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 $30.2 million at December 31, 2001 compared with $25.6 million at December 31, 2000. These assets provide the primary source of liquidity for TFB. In addition, management has designated the entire investment portfolio, approximately $36.9 million, as available for sale, and has an available line of credit with the FHLB of Atlanta with a borrowing limit of approximately $44.6 million at December 31, 2001 to provide additional sources of liquidity. At December 31, 2001, $15.0 million of the FHLB of Atlanta line of credit was in use.

CERTAIN STATISTICAL INFORMATION

The information contained on page 12 of this Report on Form 10-K in Item 6, "Selected Financial Data" is incorporated herein by reference.

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)

	2001			2000		
	Average Balances	Income/ Expense	Average Rate	Average Balances	Income/ Expense	Average Rate
ASSETS:						
Loans						
Taxable	202,854	17,330	8.54%	$188,935	$16,357	8.66%
Tax-exempt (1)	4,969	436	8.77%	4,257	345	8.11%
Nonaccrual	980	--		219	--	
Total Loans	208,803	17,766	8.51%	193,411	16,702	8.64%
Securities						
Taxable	23,569	1,334	5.66%	14,209	841	5.92%
Tax-exempt (1)	3,288	235	7.13%	2,651	184	6.95%
Total securities	26,857	1,567	5.84%	16,860	1,025	6.08%
Deposits in banks	91	3	3.16%	105	5	5.02%
Federal funds sold	18,839	676	3.59%	7,331	450	6.14%
Total earning assets	254,591	20,011	7.86%	217,707	18,182	8.35%
Less: Reserve for loan losses	(2,778)			(2,569)		
Cash and due from banks	11,917			9,846		
Bank premises and equipment, net	5,621			5,464		
Other assets	4,355			4,548		
Total Assets	273,705			$234,996		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Deposits						
Demand deposits	43,628	--		$37,123	--	
Interest-bearing deposits						
NOW accounts	39,980	262	0.66%	37,201	415	1.12%
Money market accounts	36,307	1,049	2.89%	34,969	1,185	3.39%

Savings accounts	32,137	695	2.16%	32,869	881	2.68%
Time deposits	76,469	4,256	5.57%	53,001	2,707	5.11%
Total interest-bearing deposits	184,893	6,262	3.39%	158,040	5,188	3.28%
Federal funds purchased and securities sold under agreements to repurchase	--	--		--	--	
Federal Home Loan Bank advances	18,874	957	5.07%	15,022	896	5.96%
Total interest-bearing liabilities	203,767	7,219	3.54%	173,062	6,084	3.52%
Other liabilities	2,445			2,899		
Shareholders' equity	23,865			21,912		
Total Liabilities & Shareholders' Equity	$273,705			$234,996		
Net interest spread		$12,793	4.32%		$12,098	4.83%
Interest expense as a percent of average earning assets			2.84%			2.79%
Net interest margin			5.02%			5.56%

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 (change 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)

	2001 Compared to 2000			
	Change	Due to Volume	Due to Rate	Change
INTEREST INCOME:				
Loans; taxable	$ 973	$ 1,205	$ (232)	$ 1,5
Loans; tax-exempt	91	58	32	(
Securities; taxable	493	554	(61)	(6

Securities; tax-exempt	51	44	7	(
Deposits in banks	(2)	(1)	(1)	(
Federal funds sold	226	706	(480)	(1
Total Interest Income	1,832	2,566	(734)	6
INTEREST EXPENSE:				
NOW accounts	(153)	31	(184)	(1
Money market accounts	(136)	45	(181)	(1
Savings accounts	(186)	(20)	(166)	(
Time deposits	1,549	1,199	350	5
Federal funds purchased and securities sold under agreements to repurchase	--	--	--	
Federal Home Loan Bank Advances	61	230	(169)	(1
Total Interest Expense	1,135	1,485	(360)	
Net Interest Income	$ 697	$ 1,081	$ (384)	$ 5

LOAN PORTFOLIO

At December 31, 2001 and 2000, net loans accounted for 72.7% and 79.2%, 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 Statement No. 114, "Accounting by Creditors for Impairment of a Loan." This Statement has been amended by FASB Statement No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." FASB Statement 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 Statement 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.

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, expect 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 if the shortfall in payment is insignificant. A delay of less than 30 days or a shortfall of less than 5% of the required principal and interest payments generally is considered "insignificant" and would 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 Statement 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.

Bankshares considers all consumer installment loans and residential mortgage loans to be homogenous loans. These loans are not subject to impairment under FASB Statement No. 114.

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 the 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, 2001, 2000, 1999, 1998, and 1997.

LOAN PORTFOLIO (IN THOUSANDS)

	December 31,		
	2001	2000	1999
Loans secured by real estate:			
Construction and land development	$ 16,851	$ 12,948	$ 11,746
Secured by farmland	2,220	381	903
Secured by 1-4 family residential	72,692	74,167	64,921
Nonfarm, nonresidential loans	62,845	53,959	50,988
Commercial and industrial loans (except those secured by real estate)	15,154	17,148	16,689
Loans to individuals (except those secured by real estate)	34,640	36,083	33,787
All other loans	5,962	5,873	4,868
Total loans	210,364	200,559	183,902
Less: Unearned discount	54	126	115
Total Loans, Net	$ 210,310	$ 200,433	$ 183,787

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The following table sets forth certain information with respect to TFB'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,			
	2001	2000	1999	1998
Nonaccrual loans	$ 913	$ 121	$ 125	$ 666
Restructured loans	0	0	0	0
Other real estate owned	0	0	0	57
Total Non-Performing Assets	$ 913	$ 121	$ 125	$ 723
Loans past due 90 days accruing interest	$ 541	$ 800	$ 170	$ 951
Allowance for loan losses to total loans at period end	1.36%	1.27%	1.24%	1.13%
Non-performing assets to period end loans and other real estate owned	0.43%	0.06%	0.07%	0.44%

Potential Problem Loans: At December 31, 2001, 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 remains subject to change.

Additions to the allowance for loan losses, recorded as the provision for loan losses on Bankshares' statements of income, 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, 2001, 2000, 1999, 1998, and 1997 the allowance for loan losses was $2,857,000, $2,554,000, $2,284,000, $1,853,000, and $1,655,000, respectively.

The following table summarizes TFB's loan loss experience for each of the last five years ended December 31, 2001, 2000, 1999, 1998, and 1997, respectively:

ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	Year Ended December 31		
	2001	2000	1999
Allowance for Loan Losses, January 1	$ 2,554	$ 2,284	$ 1,853
Loans Charged-Off:			
Commercial, financial and agricultural	91	247	217
Real estate-construction and development	0	4	0
Real estate-mortgage	100	20	0
Consumer	86	171	110
Total Loans Charged-Off	$ 277	$ 442	$ 327
Recoveries:			
Commercial, financial and agricultural	193	45	18
Real estate-construction and development	0	0	0
Real estate-mortgage	0	177	4
Consumer	37	33	41
Total Recoveries	$ 230	$ 255	$ 63
Net Charge-Offs	$ 47	$ 187	$ 264
Provision for Loan Losses	$ 350	$ 457	$ 695
Allowance for Loan Losses, December 31	$ 2,857	$ 2,554	$ 2,284
Ratio of Net Charge-Offs to Average Loans:	0.02%	0.10%	0.15%

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES. The following table allocates the allowance for loan losses at December 31, 2001, 2000, 1999, 1998, and 1997 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. During 2001, TFB refined its policies, guidelines, and methods for determining the allowance for loan losses, and allocating the allowance among various loan categories. Greater weight was given to the loss history by loan category, prolonged changes in portfolio delinquency trends by loan category, and changes in economic trends. As a result, the allocation of the allowance for loan losses in 2001 may not be comparable to prior periods.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(In Thousands)

	2001		2000		
	Allowance for Loan Losses	Percentage of Total Loans	Allowance for Loan Losses	Percentage of Total Loans	Al fo L
Commercial	$ 1,982	7.21%	$ 950	8.55%	$
Agricultural		0.00%		0.00%	
Real Estate:					
Construction		8.01%	25	6.46%	
Secured by Farmland		1.06%		0.19%	
1-4 Family Residential	448	34.56%	300	36.98%	
Other Real Estate		29.88%	50	26.90%	
Consumer	427	16.45%	1,229	17.99%	
All Other Loans		2.83%		2.93%	
	$ 2,857	100.00%	$ 2,554	100.00%	$

	1998		1997	
	Allowance for Loan Losses	Percentage of Total Loans	Allowance for Loan Losses	Percent of Tot Loan
Commercial	$ 714	10.29%	$ 777	12
Agricultural		0.00%		0
Real Estate:				
Construction		5.04%		5
Secured by Farmland		0.71%		1
1-4 Family Residential	160	32.47%	274	32
Other Real Estate		30.27%		26
Consumer	979	18.41%	604	18
All Other Loans		2.81%		3
	$ 1,853	100.00%	$ 1,655	100

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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, 2001:

MATURITY SCHEDULE OF SELECTED LOANS
(In Thousands)

	Within 1 Year	1 Year Within 5 Years	After 5 Years	To
Commercial and industrial loans	8,009	6,735	410	
Construction Loans	10,651	5,734	466	
	$ 18,660	$ 12,469	$ 876	$
For maturities over one year:				
Floating rate loans		$ 494	$ 0	$
Fixed rate loans		11,975	876	
		$ 12,469	$ 876	$

INVESTMENT PORTFOLIO

At December 31, 2001, 2000 and 1999, the carrying values of the major classifications of securities were as follows:

INVESTMENT PORTFOLIO
(In Thousands)

	Available for Sale (1)			
	2001	2000	1999	2001
U.S. Treasury and other U.S. Government agencies and Corporations	$ 26,844	$ 9,559	$ 10,639	$ 0
Obligations of states and political subdivisions	3,103	1,657	682	--
Corporate Bonds	5,229	--	-	--
Mutual funds	--	--	810	
Restricted investment - Federal Home Loan Bank stock	1,150	1,150	1,150	
FHLMC preferred stock	460	488	-	
Other securities	122	122	122	
Total	$ 36,908	$ 12,976	$ 13,403	$ 0

ESTIMATED MATURITY OR NEXT RATE ADJUSTMENT DATE

The following is a schedule of estimated maturities or next rate adjustment date and related weighted average yields of securities at December 31, 2001:

MATURITY DISTRIBUTION AND YIELDS OF SECURITIES
(in Thousands)

	Due in one year or less		Due after 1 through 5 years	
	Amount	Yield	Amount	Yield
SECURITIES AVAILABLE FOR SALE:				
Obligations of U.S. government corporations and agencies	$ 1,447	4.57%	$ 21,684	4.62
Obligations of states and political subdivisions, taxable	0	0.00%	5,229	5.57
Other taxable securities	0	0.00%	0	0.00
Total taxable	$ 1,447		$ 26,913	
Obligations of states and political subdivisions, tax-exempt	1,415	6.21%	492	6.20
TOTAL SECURITIES:	$ 2,862		$ 27,405	

	Due after 10 years and Equity Securities		Total	
	Amount	Yield	Amount	Yield
SECURITIES AVAILABLE FOR SALE:				
Obligations of U.S. government corporations and agencies	$ 661	6.48%	26,844	4.74
Obligations of states and political subdivisions, taxable	0	0.00%	5,229	5.58
Other taxable securities	1,732	5.76%	1,732	5.76
Total taxable	$2,393		$ 33,805	
Obligations of states and political subdivisions, tax-exempt	1,196	8.13%	3,103	6.94
TOTAL SECURITIES:	$ 3,589		$ 36,908	

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,				
	2001		2000		
	Amount	Rate	Amount	Rate	
Noninterest-bearing	$ 43,628		$ 37,123		$
Interest-bearing:					
NOW accounts	39,980	0.66%	37,201	1.12%	
Money market accounts	36,307	2.89%	34,969	3.39%	
Regular savings accounts	32,137	2.16%	32,869	2.68%	
Time deposits:	76,469	5.57%	53,001	5.11%	
Total interest-bearing	$ 184,893	3.39%	$ 158,040	3.28%	$
Total deposits	$ 228,521		$ 195,163		$

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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, 2001:

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, 2001	$ 2,659	$ 4,625	$ 6,038	$ 8,141	$

BORROWED FUNDS

LONG-TERM BORROWINGS. Amounts and weighted average rates for long-term borrowings for 2001, 2000 and 1999 are as follows:

BORROWED FUNDS (IN THOUSANDS)

December 31, 2001		December 31, 2000		December 31, 19	
Amount	Rate	Amount	Rate	Amount	R

FHLB Advances	$ 15,000	4.64%	$ 13,000	5.27%	$ 23,000	5

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 trigger certain mandatory and possibly additional discretionary actions by regulators that 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, 2001 that Bankshares and TFB meet all capital adequacy requirements to which they are subject.

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

RISK BASED CAPITAL RATIOS (IN THOUSANDS)

	December 31,	
	2001	2000
Tier 1 Capital:		
Shareholders' Equity	$ 23,930	$ 22,504
Tier 2 Capital:		
Allowable Allowance for Loan Losses	2,497	2,355
Total Capital:	$ 26,427	$ 24,859
Risk Weighted Assets:	$ 199,414	$ 188,213
Risk Based Capital Ratios:		
Tier 1 to Risk Weighted Assets	12.00%	11.96%
Total Capital to Risk Weighted Assets	13.25%	13.21%

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 our performance than inflation does. 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

For information regarding recent accounting pronouncements and their effect on Bankshares see "Recent Accounting Pronouncements" in Note 1 of the Notes to Consolidated Financial Statements contained herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

WARRENTON, VIRGINIA

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2001

C O N T E N T S

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, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
January 18, 2002

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000

ASSETS	2001
Cash and due from banks	$ 14,408,495
Interest-bearing deposits in other banks	352,536
Federal funds sold	15,421,000

Securities (fair value: 2001, $36,907,864; 2000, $16,957,101)	36,907,864
Loans, net of allowance for loan losses of $2,856,743 in 2001 and $2,554,033 in 2000	207,452,738
Bank premises and equipment, net	6,335,708
Accrued interest receivable	1,590,282
Other assets	2,733,384
Total assets	$ 285,202,007

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES	
Deposits:	
Noninterest-bearing	$ 50,659,242
Interest-bearing	193,087,800
Total deposits	243,747,042
Federal Home Loan Bank advances	15,000,000
Dividends payable	318,356
Other liabilities	1,979,210
Commitments and contingent liabilities	--
Total liabilities	261,044,608
SHAREHOLDERS' EQUITY	
Common stock, par value, $3.13 per share; 8,000,000 shares authorized; issued and outstanding, 2001, 1,675,559 shares; 2000, 1,712,191 shares	5,244,500
Retained earnings	18,685,761
Accumulated other comprehensive income (loss)	227,138
Total shareholders' equity	24,157,399
Total liabilities and shareholders' equity	$285,202,007

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, 2001

	2001	2000
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$17,617,424	$ 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	1,174,762	539,331
Interest income exempt from federal income taxes	154,816	17,778
Dividends	159,089	158,761
Interest on federal funds sold	675,574	450,492
Interest on deposits in other banks	2,864	5,251
Total interest and dividend income	19,784,529	18,002,679
INTEREST EXPENSE		
Interest on deposits	6,263,296	5,188,371
Interest on Federal Home Loan Bank advances	957,414	895,984
Total interest expense	7,220,710	6,084,355
Net interest income	12,563,819	11,918,324
Provision for loan losses	350,000	457,498
Net interest income after provision for loan losses	12,213,819	11,460,826
NONINTEREST INCOME		
Wealth management income	704,681	598,520
Service charges on deposit accounts	1,711,222	1,483,245
Other service charges, commissions and fees	824,783	750,845
Non-loan charge-off recovery	542,320	--
Loss on securities available for sale	--	(110,830)
Other operating income	53,090	8,969
Total noninterest income	3,836,096	2,730,749
NONINTEREST EXPENSES		
Salaries and employees' benefits	4,851,413	4,108,482
Net occupancy expense of premises	591,730	467,111
Furniture and equipment	861,427	834,915
Other operating expenses	4,060,530	4,254,838
Total noninterest expenses	10,365,100	9,665,346
Income before income taxes and extraordinary item	5,684,815	4,526,229
Income tax expense	1,791,465	1,429,601
Income before extraordinary item	3,893,350	3,096,628
Extraordinary item, penalty on prepayment of FHLB advances, less income tax effect of $194,684	(377,916)	--
Net income	$ 3,515,434	$ 3,096,628
EARNINGS PER SHARE, basic, before extraordinary item	$ 2.28	$ 1.76
Extraordinary item	(0.22)	--
EARNINGS PER SHARE, basic	2.06	1.76
EARNINGS PER SHARE, assuming dilution, before extraordinary item	$ 2.24	$ 1.75
Extraordinary item	(0.22)	--
EARNINGS PER SHARE, assuming dilution	$ 2.02	$ 1.75

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See Notes to Consolidated Financial Statements.

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For Each of the Three Years in the Period Ended December 31, 2001

	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 3,515,434
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	747,886
Provision for loan losses	350,000
Provision for other real estate	--
Deferred tax (benefit)	(77,080)
Loss on securities available for sale	--
(Gain) loss on other real estate	--
(Gain) on sale of premises and equipment	(65)
Amortization of security premiums and (accretion) of discounts, net	93,021
Changes in assets and liabilities:	
(Increase) decrease in other assets	(223,769)
Increase (decrease) in other liabilities	(62,348)
Net cash provided by operating activities	4,343,079
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of securities available for sale	--
Proceeds from maturities, calls and principal payments of investment securities	--
Proceeds from maturities, calls and principal payments of securities available for sale	11,960,187
Purchase of securities available for sale	(31,531,332)
Proceeds from sale of premises and equipment	65
Proceeds from sale of other real estate owned	--
Purchase of premises and equipment	(1,826,406)
Purchase of other investment	--
Improvements to other real estate owned	--
Net (increase) in loans	(9,923,858)
Net cash (used in) investing activities	(31,321,344)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase (decrease) in demand deposits, NOW accounts and saving accounts	36,585,184
Net increase (decrease) in certificates of deposit	(4,941,401)
Federal Home Loan Bank advances	10,000,000

Federal Home Loan Bank principal repayments	(8,000,000)	(
Cash dividends paid	(1,194,739)	
Issuance of common stock	28,309	
Acquisition of common stock	(895,941)	
Net cash provided by financing activities	31,581,412	
Increase (decrease) in cash and cash equivalents	4,603,147	
CASH AND CASH EQUIVALENTS		
Beginning	25,578,884	
Ending	$ 30,182,031	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 7,371,938	$
Income taxes	$ 1,872,500	$
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Other real estate acquired in settlement of loans	$ --	$
Unrealized gain (loss) on securities available for sale, net	$ 473,759	$
Transfer of securities from held to maturity to available for sale	$ 3,980,765	$

See Notes to Consolidated Financial Statements.

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For Each of the Three Years in the Period Ended December 31, 2001

	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS	ACCUMU OTHE COMP HENS INCOME
BALANCE, DECEMBER 31, 1998	$ 5,752,220	$ --	$ 15,432,062	$ (7
Comprehensive income:				
Net income	--	--	2,638,940	
Other comprehensive income net of tax, unrealized holding losses on securities available for sale, net of deferred income taxes of $185,692	--	--	--	(360

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	(367
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 $37,682				
Other comprehensive income, net of tax	--	--	--	282
Total comprehensive income	--	--	--	
Cash dividends ($.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	(85
Comprehensive income:				
Net income	--	--	3,515,434	
Other comprehensive income net of tax:				
Unrealized holding gains on securities available for sale, net of deferred income taxes of $161,078	--	--	--	312
Total comprehensive income				
Cash dividends ($.72 per share)	--	--	(1,222,023)	
Acquisition of 38,958 shares of common stock	(121,938)	--	(774,003)	
Issuance of common stock	4,150	--	15,409	
Exercise of stock options	3,130	--	5,620	
BALANCE, DECEMBER 31, 2001	$ 5,244,500	$ --	$ 18,685,761	$ 227

See Notes to Consolidated Financial Statements.

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FAUQUIER BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Each of the Three Years in the Period Ended December 31, 2001

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 accounting principles generally accepted in the United States of America 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 subsidiary, The Fauquier Bank, of which Fauquier Bank Services, Inc. is its sole subsidiary. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the 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 accounting principles generally accepted in the United States of America, 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 $262,886, $258,997 and $215,119 were incurred in 2001, 2000 and 1999, respectively.

RECLASSIFICATIONS

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

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued two statements - Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets, which will potentially impact the accounting for goodwill and other intangible assets. Statement 141 eliminates the pooling method of accounting for business combinations and requires that intangible assets that meet certain criteria be reported separately from goodwill. The Statement also requires negative goodwill arising from a business combination to be recorded as an extraordinary gain. Statement 142 eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life. The Statement requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

Upon adoption of these Statements, an organization is required to re-evaluate goodwill and other intangible assets that arose from business combinations entered into before July 1, 2001. If the recorded other intangibles assets do not meet the criteria for recognition, they should be classified as goodwill. Similarly, if there are other intangible assets that meet the criteria for recognition but were not separately recorded from goodwill, they should be reclassified from goodwill. An organization also must reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly. Any negative goodwill must be written-off. The standards generally are required to be implemented by the Bank in its 2002 financial statements. The adoption of these standards will not have a material impact on the financial statements.

In June 2001, the Financial Accounting Standards Board issued Statement 143, Accounting for Asset Retirement Obligations. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated retirement costs. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Statement is not expected to have a material effect on the Corporation's financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It also establishes a single accounting model for long-lived assets to be disposed of by sale, which includes long-lived assets that are part of a discontinued operation. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2001. The Statement is not expected to have a material effect on the Corporation's financial statements.

NOTE 2. SECURITIES

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

	DECEMBER 31, 2001		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)

Obligations of U.S. Government corporations and agencies	$ 26,680,369	$ 202,404	$ (38,948)	$
Obligations of states and political subdivisions	3,043,644	59,399	--	
Corporate bonds	5,080,203	148,793	--	
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	--	(27,500)	
	$ 36,563,716	$ 410,596	$ (66,448)	$

	DECEMBER 31, 2000			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	
Obligations of U.S. Government corporations and agencies	$ 9,706,802	$ 9,609	$ (157,327)	$
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	50,000	--	--	
FHLMC preferred stock	487,500	--	--	
	$ 13,105,946	$ 27,717	$ (157,327)	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

	2001	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,400,057	$ 1,414,723
Due after one year through five years	8,485,027	8,663,550
Due after five years through ten years	6,301,405	6,368,707
Due after ten years	18,617,727	18,728,884
Equity securities	1,759,500	1,732,000
	$ 36,563,716	$ 36,907,864

For the year ended December 31, 2000, proceeds from sales of securities available for sale amounted to $826,979. Gross realized losses amounted to $110,830. The tax (benefit) applicable to this net realized loss amounted to $(37,682). There were no sales of securities available for sale for the years ended December 31, 2001 and 1999.

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

	DECEMBER 31, 2000			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAI VAL
Obligations of U.S. Government corporations and agencies	$ 1,588,984	$ 991	$ (4,838)	$ 1,58
Obligations of states and political subdivisions	2,390,661	5,103	(136)	2,39
	$ 3,979,645	$ 6,094	$ (4,974)	$ 3,98

In accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Corporation transferred the above held to maturity securities to the available for sale category on January 1, 2001.

The carrying value of securities pledged to secure deposits and for other purposes amounted to $6,281,107 and $7,609,612 at December 31, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 3. LOANS

A summary of the balances of loans follows:

	DECEMBER 31,	
	2001	200
	(Dollars in Thousands	
Mortgage loans on real estate:		
Construction	$ 16,851	$ 12,
Secured by farmland	2,220	
Secured by 1 to 4 family residential	72,692	74,
Other real estate loans	62,845	53,
Commercial and industrial loans (except those secured by real estate)	15,154	17,
Consumer installment loans	34,640	36,
All other loans	5,962	5,
Total loans	210,364	200,
Less: Unearned income	54	
Allowance for loan losses	2,857	2,
Net loans	$ 207,453	$ 197,

NOTE 4. ALLOWANCE FOR LOAN LOSSES

Analysis of the allowance for loan losses follows:

	2001	2000
Balance at beginning of year	$ 2,554,033	$ 2,284,348
Provision charged to operating expense	350,000	457,498
Recoveries added to the allowance	230,310	254,698
Loan losses charged to the allowance	(277,600)	(442,511)
Balance at end of year	$ 2,856,743	$ 2,554,033

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Information about impaired loans is as follows:

	2001	2000
Impaired loans for which an allowance has been provided	$ 776,755	$ --
Impaired loans for which no allowance has been provided	--	--
Total impaired loans	$ 776,755	$ --
Allowance provided for impaired loans, included in the allowance for loan losses	$ 200,000	$ --

	2001	2000
Average balance in impaired loans	$ 843,586	$ 12,804
Interest income recognized	$ --	$ --

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 $136,134, $121,057 and $49,534 at December 31, 2001, 2000 and 1999, respectively. If interest on these loans had been accrued, such income would have approximated $4,066, $3,509 and $1,421 for 2001, 2000 and 1999, respectively.

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 $4,652,519 at December 31, 2001 and $4,788,426 at December 31, 2000. During 2001, total principal additions were $717,750 and total principal payments were $853,657.

NOTE 6. BANK PREMISES AND EQUIPMENT, NET

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

	2001	
Land	$ 864,667	$
Buildings and improvements	6,186,054	5
Furniture and equipment	7,063,646	6
Leasehold improvements	273,817	
Construction in progress	259,976	
	14,648,160	12
Less accumulated depreciation and amortization	8,312,452	7
	$ 6,335,708	$ 5

Depreciation and amortization charged to operations totaled $747,886, $747,145 and $764,862 in 2001, 2000 and 1999, respectively.

NOTE 7. DEPOSITS

The aggregate amount of time deposits, in denominations of $100,000 or more at December 31, 2001 and 2000 was $21,462,537 and $24,420,250, respectively.

At December 31, 2001, the scheduled maturities of time deposits are as follows:

2002	$ 48,536,018
2003	11,798,730
2004	1,912,861
2005	5,937,973
2006	810,650
	$ 68,996,232

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, 2001, computed as of October 1st of each respective year:

	2001	2000
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning	$ 3,736,910	$ 3,339,553
Service cost	215,762	178,513
Interest cost	278,253	248,451
Actuarial (gain) loss	(115,194)	40,973
Benefits paid	(78,792)	(70,580)
Benefit obligation, ending	$ 4,036,939	$ 3,736,910
CHANGE IN PLAN ASSETS		
Fair value of plan assets, beginning	$ 4,470,263	$ 3,679,064
Actual return on plan assets	(914,910)	831,151
Employer contributions	297,908	30,628
Benefits paid	(78,792)	(70,580)
Fair value of plan assets, ending	$ 3,774,469	$ 4,470,263
FUNDED STATUS	$ (262,470)	$ 733,353
Unrecognized net actuarial (gain) loss	65,173	(1,170,638)
Unrecognized net obligation at transition	(189,782)	(208,761)
Unrecognized prior service cost	77,669	85,435
Accrued benefit cost included in other liabilities	$ (309,410)	$ (560,611)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table provides the components of net periodic benefit cost for the plan for the years ended December 31, 2001, 2000 and 1999:

	2001	2000	
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$ 215,762	$ 178,513	$
Interest cost	278,253	248,451	
Expected return on plan assets	(399,914)	(328,706)	
Amortization of prior service cost	7,766	7,766	
Amortization of net obligation at transition	(18,979)	(18,979)	
Recognized net actuarial gain	(36,181)	(17,063)	
Net periodic benefit cost	$ 46,707	$ 69,982	$

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

	2001	2000	1999
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, 2001, 2000 and 1999 of $74,880, $72,922 and $63,057, respectively.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

The Fauquier Bank has entered into two long-term banking facility leases. The first lease was entered into on January 31, 1999. The lease provides for an original five-year term with a renewal option for additional periods of five years on the Bank's Sudley Road, Manassas branch. Annual rent currently is $41,160.

The second lease for a branch office in Old Town Manassas was entered into on April 10, 2001. The lease provides for an original ten-year term with the right to renew for two additional ten-year periods beginning on June 1, 2001. Annual rent is $37,400 for the first five years and $40,700 annually commencing with the sixth year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Total rent expense was $73,076, $48,784, and $31,068 for 2001, 2000 and 1999, respectively, and was included in occupancy expense.

The following is a schedule by year of future minimum lease requirements required under the long-term noncancellable lease agreements:

2002	$ 82,970
2003	84,557
2004	41,339
2005	37,400
2006	39,325
Thereafter	179,758
Total	$ 465,349

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, 2001 and 2000, the aggregate amounts of daily average required balances were approximately $8,300,000 and $4,044,000, 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.

NOTE 10. INCOME TAXES

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

	2001	2000	
Deferred tax assets:			
Allowance for loan losses	$ 837,466	$ 734,545	$
Accrued pension obligation	105,826	190,114	
Interest on nonaccrual loans	31,076	1,193	
Allowance on other real estate owned	--	--	
Securities available for sale	--	44,067	
Other	11,329	--	
	985,697	969,919	$
Deferred tax liabilities:			
Securities available for Sale	117,011	--	
Other	35,518	1,711	
Accumulated depreciation	217,778	268,820	
	370,307	270,531	
Net deferred tax assets	$ 615,390	$ 699,388	$

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Current tax expense	$ 1,673,861	$ 1,586,492	$ 1,316,756
Deferred tax (benefit)	(77,080)	(156,891)	(154,757)
	$ 1,596,781	$ 1,429,601	$ 1,161,999

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

	2001	2000	1999
Computed "expected" tax expense	$ 1,932,837	$ 1,538,918	$ 1,292,319
Decrease in income taxes resulting from:			
Tax-exempt interest income	(135,625)	(106,799)	(116,442)
Extraordinary item	(194,684)	--	--
Other	(5,747)	(2,518)	(13,878)
	$ 1,596,781	$ 1,429,601	$ 1,161,999

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.

	2001		2000	
	SHARES	PER SHARE AMOUNT	SHARES	PER SHARE AMOUNT

Basic earnings per share	1,703,433	$ 2.06	1,755,182	$ 1.76	
Effect of dilutive securities, stock options	33,415		11,591		
Diluted earnings per share	1,736,848	$ 2.02	1,766,773	$ 1.75	

Options on 49,280 and 80,060 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

NOTE 12. STOCK OPTION PLANS

OMNIBUS STOCK OWNERSHIP AND LONG-TERM INCENTIVE 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. 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 the Plan 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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,		
		2001	2000	199
Net income	As reported	$ 3,515,434	$ 3,096,628	$ 2,63
	Pro forma	$ 3,247,129	$ 2,872,942	$ 2,51
Earnings per share	As reported	$ 2.06	$ 1.76	$
	Pro forma	$ 1.91	$ 1.64	$
Earnings per share - assuming dilution	As reported	$ 2.02	$ 1.75	$
	Pro forma	$ 1.87	$ 1.63	$

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,		
	2001	2000	1999
Dividend yield	0.69%	0.65%	0.60%
Expected life	10 years	10 years	10 years
Expected volatility	18.32%	18.38%	17.88%
Risk-free interest rate	5.11%	6.70%	6.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A summary of the status of the Omnibus Stock Ownership and Long-Term Incentive is presented below:

	2001		2000	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1	129,816	$ 18.46	89,968	$ 19.93
Granted	42,296	16.13	39,848	16.25
Exercised	(1,000)	8.75	--	--
Outstanding at December 31	171,112	$ 16.44	129,816	$ 18.46
Exercisable at end of year	83,454		70,347	
Weighted-average fair value per option of options granted during the year	$ 6.21		$ 7.34	

The status of the options outstanding as of December 31, 2001 for the Omnibus Stock Ownership and Long-Term Incentive and Director Compensation Plans is as follows:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
REMAINING CONTRACTUAL LIFE	NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHT AVERA EXERCI PRIC
3.33 years	7,960	$ 8.75	7,960	$
4.25 years	11,200	10.13	11,200	
5.25 years	12,320	12.50	12,320	
6.25 years	11,200	20.00	11,200	
6.66 years	13,488	21.00	11,827	
7.25 years	12,320	19.50	12,320	
7.66 years	20,480	19.00	--	
8.6 years	39,848	16.25	14,347	
9.88 years	42,296	16.13	14,107	

171,112	$ 16.44	95,281	$
=======		======	

The Corporation also maintains a Director Deferred Compensation Plan (the "Deferred Compensation 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 13. FEDERAL HOME LOAN BANK ADVANCES

The Corporation's fixed-rate debt of $15,000,000 at December 31, 2001 matures through 2008. At December 31, 2001 and 2000, the interest rates ranged from 4.51 percent to 4.89 percent and from 4.89 percent to 5.51 percent, respectively. At December 31, 2001 and 2000, the weighted average interest rates were 4.64 percent and 5.27 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, 2001, the book value of these loans totaled approximately $67,332,000. 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,	
	2001	2000
Due in 2006	$ 10,000,000	$ --
Due in 2008	5,000,000	13,000,000
	$ 15,000,000	$ 13,000,000

An advance dated October 1, 1998 has an imbedded call option that gives the Federal Home Loan Bank the option to call only on the five-year anniversary date. The remaining advance, dated May 10, 2002 has an imbedded call option that gives the Federal Home Loan Bank the option to call only on the two-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, 2001, the aggregate amount of unrestricted funds, which could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval, totaled $2,378,573.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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 as it does for on-balance-sheet instruments.

At December 31, 2001 and 2000, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2001	2000
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 47,553,841	$ 54,509,321
Standby letters of credit	$ 6,102,463	$ 6,341,922

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, statement 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, 2001 and 2000, the carrying amounts of loan commitments and standby letters of credit approximated fair values.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

	2001		
	CARRYING AMOUNT	FAIR VALUE	C
	(Thousands)		
Financial assets:			
Cash and short-term			

investments	$ 14,761	14,761	$
Federal funds sold	15,421	15,421	
Securities	36,908	36,908	
Loans, net	207,453	213,688	
Accrued interest receivable	1,590	1,590	
Financial liabilities:			
Deposits	$ 243,747	243,822	$
FHLB advances	15,000	15,060	
Accrued interest payable	558	558	

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:

	2001	2000
Advertising and business development	$ 398,694	$ 381,204
Bank card	426,738	408,342
Data processing	719,820	644,911
Postage and supplies	385,291	253,206
Professional and consulting fees	700,086	855,637
Other (no items exceed 1% of total revenue)	1,429,901	1,711,538
	$ 4,060,530	$ 4,254,838

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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 $299,895 at December 31, 2001.

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, 2001 and 2000, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2001, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

	ACTUAL		MINIMUM CAPITAL REQUIREMENT	
	AMOUNT	RATIO	AMOUNT	RATIO

As of December 31, 2001:			(Amount in Thousands)	
Total Capital (to Risk Weighted Assets):				
Consolidated	$ 26,427	13.2%	$ 15,953	8.0%
The Fauquier Bank	$ 26,138	13.1%	$ 15,923	8.0%
Tier 1 Capital (to Risk Weighted Assets):				
Consolidated	$ 23,930	12.0%	$ 7,977	4.0%
The Fauquier Bank	$ 23,646	11.9%	$ 7,961	4.0%
Tier 1 Capital (to Average Assets):				
Consolidated	$ 23,930	8.3%	$ 11,533	4.0%
The Fauquier Bank	$ 23,646	8.2%	$ 11,538	4.0%
As of December 31, 2000:				
Total Capital (to Risk Weighted Assets):				
Consolidated	$ 24,859	13.2%	$ 15,057	8.0%
The Fauquier Bank	$ 24,939	13.3%	$ 15,057	8.0%
Tier 1 Capital (to Risk Weighted Assets):				
Consolidated	$ 22,504	12.0%	$ 7,259	4.0%
The Fauquier Bank	$ 22,584	12.0%	$ 7,529	4.0%
Tier 1 Capital (to Average Assets):				
Consolidated	$ 22,504	9.1%	$ 9,864	4.0%
The Fauquier Bank	$ 22,584	9.2%	$ 9,864	4.0%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 20. EXTRAORDINARY ITEM

The extraordinary item represents the prepayment penalty associated with the repayment of $8 million of Federal Home Loan Bank advances on December 5, 2001. The penalty amounted to $572,600, less the applicable income tax effect of $194,684.

NOTE 21. PARENT CORPORATION ONLY FINANCIAL STATEMENTS

FAUQUIER BANKSHARES, INC.
(Parent Corporation Only)

BALANCE SHEETS
December 31, 2001 and 2000

	DECEMBER 31,	
ASSETS	2001	2000

Cash on deposit with subsidiary bank	$ 76,164	$ 46,624
Investment in subsidiaries, at cost, plus equity in undistributed net income	23,872,648	22,498,032
Dividend receivable	318,356	291,072
Other assets	377,769	--
	$ 24,644,937	$ 22,835,728
Liabilities and Shareholders' Equity		
LIABILITIES		
Dividend payable	$ 318,356	$ 291,072
Other liabilities	169,182	125,717
	487,538	416,789
SHAREHOLDERS' EQUITY		
Common stock	5,244,500	5,359,158
Retained earnings, which are substantially distributed earnings of subsidiaries	18,685,761	17,145,324
Accumulated other comprehensive income (loss)	227,138	(85,543)
	24,157,399	22,418,939
Total liabilities and shareholders' equity	$ 24,644,937	$ 22,835,728

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

FAUQUIER BANKSHARES, INC.
(Parent Corporation Only)

STATEMENTS OF INCOME
For Each of the Three Years in the Period Ended December 31, 2001

	2001	2000	1999
REVENUE, dividends from subsidiaries	$ 2,530,732	$ 2,237,339	$ 2,315,247
EXPENSES			
Legal and professional fees	28,624	35,613	105,153
Directors' fees	52,432	6,632	11,959
Miscellaneous	35,963	15,003	28,149
Total expenses	117,019	57,248	145,261

Income before income tax benefit and equity in undistributed net income of subsidiaries	2,413,713	2,180,091	2,169,986
Income tax (benefit)	(39,786)	(19,464)	(49,389)
Income before equity in undistributed net income of subsidiaries	2,453,499	2,199,555	2,219,375
Equity in undistributed net income of subsidiaries	1,061,935	897,073	419,565
Net income	$ 3,515,434	$ 3,096,628	$ 2,638,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

FAUQUIER BANKSHARES, INC.
(PARENT CORPORATION ONLY)

STATEMENTS OF CASH FLOWS
for Each of the Three Years in the Period Ended December 31, 2001

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,515,434	$ 3,0
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiaries	(1,061,935)	(8
(Increase) in undistributed dividends receivable from subsidiaries	--	(
(Increase) decrease in other assets	(405,053)	
Increase (decrease) in other liabilities	43,465	(
Net cash provided by operating activities	2,091,911	2,1
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(1,194,739)	(1,0
Issuance of common stock	28,309	
Acquisition of common stock	(895,941)	(1,0
Net cash (used in) financing activities	(2,062,371)	(2,1

Increase in cash and cash equivalents	29,540	
Cash and Cash Equivalents		
Beginning	46,624	
Ending	$ 76,164	

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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 24, 2002

/s/ Eric P. Graap

Eric P. Graap
Senior Vice President and Chief Financial Officer
Dated: April 24, 2002

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

/s/ C. Hunton Tiffany C. Hunton Tiffany	Chief Executive Officer, Director	April 24, 2002
/s/ Alexander G. Green, Jr. Alexander G. Green, Jr.	Director	April 24, 2002
/s/ Stanley C. Haworth Stanley C. Haworth	Director	April 24, 2002
/s/ John J. Norman, Jr. John J. Norman, Jr.	Director	April 24, 2002
/s/ Douglas C. Larson Douglas C. Larson	Director	April 24, 2002

/s/ C.H. Lawrence, Jr. ------------------------------- C.H. Lawrence, Jr.	Director	April 24, 2002
/s/ D. Harcourt Lees, Jr. ------------------------------- D. Harcourt Lees, Jr.	Director	April 24, 2002
/s/ Randolph T. Minter ------------------------------- Randolph T. Minter	Director	April 24, 2002
/s/ B.S. Montgomery ------------------------------- B.S. Montgomery	Director	April 24, 2002
/s/ H.P. Neale ------------------------------- H.P. Neale	Director	April 24, 2002
/s/ Pat H. Nevill ------------------------------- Pat H. Nevill	Director	April 24, 2002
/s/ Henry M. Ross ------------------------------- Henry M. Ross	Director	April 24, 2002
/s/ H. Frances Stringfellow ------------------------------- H. Frances Stringfellow	Director	April 24, 2002