

Fauquier Bankshares, Inc.

Dear Shareholders,

Last year I wrote my first Letter to Shareholders after having been with our company for only a few weeks. I have now passed my one year anniversary, and during this time I have become more encouraged regarding the future of our organization. This past year has also convinced me of the importance of strong community banks to the composition of strong communities, and I am confident that as our company continues to build on its 115 year legacy, our best days are ahead of us.

The central theme that developed during 2016 revolved around three concepts: Past, Present, and Future. Our past was reflected in several significant events. First, we recovered a portion of the loss we had incurred in 2015 from a charged-off loan relationship. This recovery, while substantial, was only a portion of the loss incurred, and represents, most likely, the full sum of our expected recovery. (A subsequent external loan review by an independent third party validated the effectiveness of our risk management model, and further supported our belief that the event of fraud was an anomaly, and not representative of the Bank's asset quality). Second, we saw the retirement of two of our executive officers; Randy Ferrell, Chief Executive Officer, and Eric Graap, Chief Financial Officer. Both individuals were dedicated members of our team for a number of years. We appreciate their service to our company and wish them the very best in their retirement.

The present was demonstrated in a return to profitability – our company generated \$3.67 million in net profit during the year, a 0.60% return on assets (ROA) and a 6.82% return on equity (ROE). We experienced loan and deposit growth, leading to a return of asset growth and capital improvement. These successes, along with the continuance of our shareholder dividend, sets the stage for a more sustained profitable operation, and initiates our return to improved financial performance as we move forward into 2017.

Building on these successes in 2016, I want to focus most of this communication on the exciting things which are in store for our company as we move forward. Our future was revealed in a number of different ways over the past year; from small shifts in operating philosophy represented by a new Vision Statement and Values for our company, to numerous investments in people and process. Fundamentally, our business is not complicated, it comes down to people, and one of our most significant accomplishments in 2016 was hiring Mike York to be our Chief Operating Officer. Mike has responsibility for all of our customer facing, business development activities, and he adds a level of depth and succession to our management team that is invaluable. We are fortunate to have Mike on our team. In addition, we promoted Chris Headly, a longstanding member of our Management Team, to Chief Financial Officer. This promotion represents an orderly succession of our CFO position, and recognizes the outstanding job Chris has done in her previous role as Controller. We also made investments in new production personnel to complement our current team of bankers, as well as investments in new operating approaches and processes designed to achieve improved results and help us reach our potential as a high performing community bank.

Our leadership team developed a new Vision Statement for our company that is comprised of several key values. I would like to share our new Vision Statement with you, as follows:

The Fauquier Bank seeks Excellence through an Engaged and Empowered Team, building valued Relationships with our Customers and Community.

The key values that we focus on in our daily activities are listed in the Vision Statement: Excellence, Engagement, Empowerment, Teamwork, and Relationships. These values differentiate our organization as a financial service provider to our customers and our community. This common vision for all our employees provides context to our daily activities and our decision making. We are proud of this Vision Statement and we seek to embody it in every interaction we have with our customers and shareholders.

We implemented or initiated numerous strategic initiatives in 2016, highlighted by the following. We hired three new Commercial Relationship Managers in 2016, which adds to our existing strong team of commercial bankers and doubles our new business development team. This positions us to increase the level of earning asset growth and improve our profitability and financial performance. In addition, two of our existing Wealth Management Advisors successfully completed their Certified Financial Planner designation, adding enhanced capabilities to our wealth planning services. The immediate results of these new hires, along with the dedicated bankers already on our team, was \$16.3 million growth in loans and \$21.9 million growth in deposits, an increase of 3.6% and 4.2%, respectively, from the previous year end. We increased assets under management in our Wealth Management area by \$21.9 million, a 6.3% increase from previous year. In addition to the investments in new production personnel, we restructured our retail banking area to better align sales functions and service functions. Although seamless to our customers, these changes provide improvements to internal processes and allow us to be more attentive to our customers at the point of contact.

We began an efficiency project, Origination to Book, or O2B, to improve and streamline the process of loan application, approval, closing and booking. We initiated a partnership with a financial technology firm, Minute Lender, in order to originate consumer and small business loans through an online lending portal on our website. This fintech partnership will allow our customers easy access to an efficient loan process that provides approval and fulfillment in a matter of minutes. Also, we created a secondary market mortgage platform that we will roll out in the current year to enable us to expand our residential mortgage product offerings to customers and increase fee income.

Some of the previously mentioned initiatives are part banking and part technology. Continual investments in our technology platform is a differentiator in our ability to offer banking services to our customers, allowing us to improve efficiencies in order to be more profitable. We continued investments in technology during 2016, such as enhancing our online banking platform to provide better navigational tools and instant balance access for our customers. We also began offering tokenized payments through Apple Pay and Android Pay, and rolled out chip-enabled debit cards, to provide better payment access with enhanced security.

In addition to investments in new production personnel, new processes, and new technology, we invested in our employees. We initiated an annual Employee Satisfaction Survey in order to gauge employee satisfaction and provide a resource for employee feedback. We implemented an employee volunteer policy to allow employees paid time off from work to volunteer in community activities and events, further strengthening our commitment and relationship to the communities we serve. We implemented a wellness program for all employees, including a smoking cessation incentive, which saved the company 2% of our health insurance premium. We held a Walk at Lunch Day on 4/27/16 to support Community Touch Food Drive, and raised cash donations, as well as food, to support those less fortunate. In addition, we held a Thanksgiving Food Drive to support Community Touch, and a December Food Drive to benefit Fauquier FISH. We began a TFB blog and engaged in an Instagram initiative, as well as increasing our use of social media to highlight bank activities and employee involvement in the community.

All these investments are designed to accomplish three things: improve the working environment for our employees; improve the experience for our customers; and improve the return for our shareholders. We will continue to invest in our employees and our business to make our company a better place to work, bank and invest.

In closing, The Fauquier Bank continues to be a vital part of Fauquier and Prince William Counties. We are very fortunate to have the opportunity to serve our customers, and we are very proud of our company and the positive benefit it has on our community. We appreciate our shareholders' investment in The Fauquier Bank, and we will continue to work hard to advance our company into the future. Thank you for your commitment to our company. We remain encouraged for the days ahead.

Sincerely,

A handwritten signature in black ink that reads "Marc J. Bogan". The signature is written in a cursive, flowing style.

Marc J. Bogan
President and Chief Executive Officer