FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

JAMES RIVER BANKSHARES INC
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Mailing Address
101 EAST WASHINGTON STREET
SUFFOLK VA 23434

Business Address
1514 HOLLAND ROAD
SUFFOLK VA 23434
7579348100

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

FORM 10-K

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

For the fiscal year ended December 31, 1998
Commission File Number 0-26314

JAMES RIVER BANKSHARES, INC.

Virginia	54-1740210
State of Incorporation	IRS Employer Identification No.

1514 Holland Road, Suffolk, Virginia 23434

Registrant's telephone number, including area code: (757) 934-8100

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $5.00 par value

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 16, 1998: Common Stock - $55,044,773.

The number of shares outstanding of the registrant's common stock as of March 16, 1998: 3,741,230.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 1998 ("Annual Report") are incorporated by reference in Part I and Part II of this Form 10-K.

Certain information appearing elsewhere in this report contains forward looking statements that are subject to risks and uncertainties that could cause the Company's future results to differ materially from those anticipated in these forward looking statements. These forward looking statements include, but are not limited to, statements regarding management's goals to improve profitability, make strategic acquisitions, prepare the Company for Year 2000, and other risks, expectations, or goals. Risks and uncertainties that may affect the financial condition and results of operations of the Company include, but are not limited to, general economic and business conditions, competition from banks and other financial service providers, new financial products and services, risks inherent in making loans, including repayment risks and changing collateral value, changing trends in customer profiles, technological changes, changes in laws and regulations applicable to James River and its subsidiaries, and risk related to Year 2000, including the risks associated with vendors and their suppliers and risks from customers. Although James River believes that its expectations with respect to any forward looking statements are based upon reasonable assumptions within the limits of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from any future results that may be expressed or implied by forward looking statements.

PART I

Item 1. Business

General

James River is a Virginia bank holding company that commenced operations June 1, 1995. James River was capitalized pursuant to a share exchange ("Share Exchange") between Bank of Suffolk, a Virginia state chartered bank ("BOS"), and James River Bank ("JRB"), also a Virginia state chartered bank. In the Share Exchange, shareholders of BOS and JRB exchanged their shares of common stock of BOS and JRB, respectively, for shares of James River Common Stock. BOS and JRB became wholly owned subsidiaries of James River on May 31, 1995.

In the first quarter of 1996, James River and its subsidiaries consummated several significant transactions. First, in two separate transactions that both closed on March 1, 1996, James River acquired Bank of Isle of Wight, a Virginia state chartered bank in Smithfield, Virginia ("BIW") and First Colonial Bank, FSB, a federal savings bank in Hopewell, Virginia ("FCB"). In the aggregate, these two transactions more than doubled James River's total assets and net loans. JRB also consummated the acquisition of three branch banking offices on March 23, 1996, one of which is located in the City of Franklin, Virginia, and two of which are located in Courtland, Virginia, in Southampton County. JRB assumed aggregate deposit liabilities of approximately $34 million in connection with the branch acquisitions. In addition, BOS purchased a branch bank facility in Suffolk and commenced operations at this branch in June 1996.

In May 1998, FCB converted from a federal savings bank charter to a Virginia state chartered bank and changed its name to First Colonial Bank. Prior to its conversion, FCB sold the assets of its consumer finance company subsidiaries, Family Finance Corporation and Family Finance of Virginia, Inc., to the Company.

In October 1998, Mortgage Company of James River, Inc.("MCJR") was formed as an operating subsidiary of JRB. MCJR is a residential mortgage lending operation based in Richmond, Virginia and initially plans to originate mortgage loans from Hampton Roads in the Southeastern portion of Virginia through Richmond and Charlottesville in the Central portion of the state. MCJR actually commenced its lending operations in early 1999.

Also, in 1998, BIW changed its name to James River Bank/Colonial ("JRBC") in conjunction with the opening of two branch offices on the Hampton Roads Peninsula.

James River now has four operating bank subsidiaries with a total of 24 banking offices that conduct operations from the Tidewater region of Southeastern Virginia to the tri-city areas of Hopewell, Petersburg and Colonial Heights in South-central Virginia.

James River has also entered into an Agreement and Plan of Merger dated February 17, 1999 ("Merger Agreement") with the State Bank of Remington, Inc. ("State Bank"). Under the terms of the Merger Agreement, State Bank would become a wholly owned subsidiary of James River and would conduct operations as a free standing banking subsidiary. The Merger Agreement provides that shareholders of State Bank would receive 2.9 shares of James River common stock for each outstanding share of State Bank common stock. State Bank has approximately 291,000 shares of common stock outstanding. The proposed merger is subject to regulatory and shareholder approval and to certain other conditions set forth in the Merger Agreement. Subject to satisfaction of these conditions, James River expects the transaction to close in the third quarter of 1999 and to be accounted for as a pooling of interests.

Operations of James River's Banking Subsidiaries

General. All of the banking subsidiaries provide a wide range of financial services primarily to individuals and to small and medium-sized businesses. These services include individual and commercial demand and time deposits, commercial and consumer loans, traveler's checks, safe deposit facilities, U.S. Government Savings Bonds, collection items, and official checks. BOS and JRBC are authorized to provide trust services but do not currently do so.

BOS was formed in 1967 and has seven branches in Suffolk, Virginia and one office in Chesapeake, Virginia, which was opened in October 1998. FCB was formed in 1972 and commenced operations in 1975. Based in Hopewell, Virginia, FCB has seven branches located in Hopewell, Petersburg, Colonial Heights, and the counties of Dinwiddie and Chesterfield. JRB was chartered in 1933. Its main office is in Waverly, Virginia. It operates a total of six branches in the Sussex and Southhampton Counties and the city of Franklin. JRBC was formed in 1971 in Smithfield, Virginia. In the fourth quarter of 1998, it opened two additional offices in Newport News and Grafton, Virginia.

Credit Policies. James River's banking subsidiaries employ written policies and procedures to manage credit risk. This process includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for on-going identification and management of credit deterioration, and regular portfolio reviews to estimate loss exposure and to ascertain compliance with internal policies.

A major element of credit risk management is the diversification of risk. The objective of each subsidiary is to maintain a diverse loan portfolio to minimize the impact of any single event or set of circumstances. Concentration parameters are based upon individual risk factors, policy constraints, economic conditions, collateral, and products. James River's subsidiaries generally do not make loans outside their market area unless the borrower has an established relationship with the bank and conducts its principal business operations within the bank's market area. Consequently, James River's banking subsidiaries and their borrowers are directly affected by the economic conditions prevailing in their respective market areas.

The following table sets forth the composition of the loan portfolio of James River's banking subsidiaries on a restated consolidated basis (by percentage) for the five years ended December 31, 1998. The amounts reported below for 1994 include FCB's applicable balances as of June 30 for the period indicated.

Loan Portfolio by Percentage

	December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
Commercial	12.1%	13.1%	9.7%	11.6%	8.9%
Real estate-commercial	18.0%	19.2%	8.5%	7.6%	10.2%
Real estate-construction and land development	9.0%	7.5%	6.0%	4.0%	2.4%
Real estate-mortgage	51.3%	49.4%	64.8%	66.7%	63.9%
Agricultural	0.9%	1.8%	1.0%	0.6%	0.5%
Installment	8.7%	9.0%	10.0%	9.5%	14.1%
Total Loans	100.0%	100.0%	100.0%	100.0%	100.0%
Total Loans	$275,607	$263,219	$243,104	$208,143	$174,225

James River's service area provides lending opportunities to small businesses, farmers, and a wide range of consumers. Most of the small businesses are either retail or agribusiness companies. The loan portfolio set forth above for James River's banking subsidiaries is 79.4% collateralized by first and second deeds of trust on residential and commercial real estate. This heavy collateralization by real estate requires an ascertainment of property values in the service areas and lending on the appropriate loan-to-value ratios.

Commercial. Commercial loans represented 30.1% of James River's total loan portfolio on December 31, 1998. Commercial loans are used to purchase commercial real estate, to purchase capital equipment, to support letters of credit and to fund inventory purchases. To support all of the commercial business credits, borrowers' financials are kept current and are analyzed to determine repayment through cash flows and annual earnings. Because most of these businesses are small, principal owners generally are asked to personally guarantee the credit.

Agricultural. At December 31, 1998, agricultural loans totaled $2.5 million. These were all farm operating loans including loans secured by farm equipment. Loans secured by farm equipment have annual payments and are part of the loan portfolio with maturities of up to five years.

Real Estate Construction and Land Development. Real estate construction and land development loans amounted to $24.8 million or 9.0% of the loan portfolio at December 31, 1998. Most of these loans were made to either homeowners who were having their own home built or to contractors who were building a residence under contract. In addition, the Company provides financing to contractors form residential real estate construction that is not pre-sold.

Real Estate Mortgage. At December 31, 1998, 94.9% of the real estate mortgages were residential mortgages on one to four family units. These loans were either open ended adjustable rate mortgages ("ARMS"), amortized monthly, predominately on a 20 year amortized basis, or closed end balloon loans, monthly amortized and based on 15 or 20 year amortization. Both the ARMs and the balloons have one, three or five year adjustable rates. $10.1 million were real estate loans to individuals used for farm purchases and multifamily residential properties.

Installment. On December 31, 1998, 8.7% of total loans were consumer and installment loans. Installment loans include home improvement loans, automobile loans and personal unsecured loans. James River's banking subsidiaries, on consumer collaterized loans, generally use loan to value ratios of 75%.

Loan Portfolio

As described above, the portfolio of James River's banking subsidiaries is comprised of commercial loans, agricultural loans, real estate loans, and installment loans. Net loans consist of total loans minus the allowance for loan losses, unearned discounts, and deferred loan fees. Net loans were $275.5 million at December 31, 1998, 5.76% more than net loans of $260.5 million at December 31, 1997. The average balance of total loans as a percentage of average earning assets was 72.2%, 72.1%, 67.4%, 66.0% and 61.0% for 1998, 1997, 1996, 1995 and 1994, respectively. James River's banking subsidiaries had no loans outstanding to foreign countries or for highly leveraged transactions as of December 31, 1998, 1997, 1996, 1995, or 1994.

In the normal course of business, James River's banking subsidiaries make various commitments and incur certain contingent liabilities which are disclosed but not reflected in its financial statements. These commitments and contingent liabilities include commitments to extend credit and standby letters of credit. At December 31, 1998, commitments for standby letters of credit totaled $1.7 million and commitments to extend credit were $65.1 million. At December 31, 1997, commitments for standby letters of credit totaled $1.6 million and commitments to extend credit totaled $40.1 million.

Interest income on installment, commercial, and real estate mortgage loans is computed on the principal balance outstanding. Most loans carry an interest rate tied to the base rate of James River's banking subsidiaries, which is generally the Wall Street Journal prime rate.

The following table summarizes the composition of the loan portfolio at the dates indicated for James River's banking subsidiaries. The amounts reported below for 1994 include FCB's applicable balances as of June 30, 1994.

Loan Portfolio

	December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
Commercial	$ 33,266	$ 34,513	$ 23,689	$ 24,224	$ 15,463
Real estate-commercial	49,495	50,522	20,606	15,780	17,730
Real estate-construction and land development	24,838	19,683	14,520	8,317	4,151
Real estate-mortgage	141,484	130,055	157,605	138,851	111,403
Agricultural	2,536	4,802	2,256	1,102	945
Installment	23,988	23,644	24,428	19,869	24,533
Total Loans	275,607	263,219	243,104	208,143	174,225
Less:					
Allowance for loan losses	3,827	3,457	3,176	2,891	2,691
Unearned discount	17	25	38	60	122
Deferred loan fees (costs)	(129)	50	169	159	106
Net loans receivable	271,892	259,687	239,721	205,033	171,306
Loans held for sale	3,599	789	1,192	1,483	3,677
Net loans	$ 275,491	$ 260,476	$240,913	$206,516	$174,983

Set forth below is information regarding the maturity of loans for James River's banking subsidiaries at December 31, 1998:

Maturity Schedule of Loans

December 31, 1998			
One Year or Less	Over One through Five Years	Over Five Years	Total Loans

(Dollars in thousands)

Commercial	$ 8,489	$ 19,063	$ 5,714	$ 33,266
Real estate-commercial	7,051	14,059	28,385	49,495
Real estate-construction and land development	13,720	3,141	7,977	24,838
Real estate-mortgage	13,833	32,362	95,289	141,484
Agricultural	932	1,262	342	2,536
Installment	8,560	14,779	649	23,988
Total	$ 52,585	$ 84,666	$138,356	$275,607
Loans maturing after one year with predetermined rates				118,879
Loans maturing after one year with variable rates				104,143
Total				$223,022

Asset Quality

James River's banking subsidiaries attempt to maintain the allowance for loan losses at a sufficient level to provide for potential losses in the loan portfolio. The provision for loan losses is determined periodically by senior management and lending officers based upon consideration of several factors, including changes in the character and size of the loan portfolio and related loan loss experience, a review and examination of overall loan quality which includes the assessment of problem loans, and an analysis of anticipated economic conditions in the market area. In addition, bank regulatory agencies that regularly review the loan portfolio as part of their examination process, internal loan review personnel, and advice from James River's independent accountants are considered in reviewing and assessing the adequacy of the allowance for loan losses.

An analysis of the allowance for loan losses, including charge off activity is presented below for James River's banking subsidiaries for the periods indicated. The amounts reported below for 1994 include FCB's applicable balances as of June 30 for the period indicated.

Allowance for Loan Losses

	December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
Balance, beginning of period	$ 3,457	$ 3,176	$ 2,891	$ 2,691	$ 2,258
Less charge offs:					
Commercial	59	12	17	71	25
Installment	174	187	152	73	56
Real Estate	21	70	133	64	169
Total Charge offs	254	249	302	208	250
Plus recoveries:					
Commercial	8	58	10	23	30
Installment	56	30	15	57	26
Real estate	53	3	71	4	34
Total recoveries	117	91	96	84	90
Net charge offs	137	158	206	124	160
Provision for loan losses	507	439	491	341	593
Adjustment to conform fiscal year	-	-	-	(17)	-

Balance end of period	$ 3,827	$ 3,457	$ 3,176	$ 2,891	$ 2,691
Allowance for loan losses to period end total loans	1.37%	1.31%	1.30%	1.38%	1.51%
Allowance for loan losses to nonaccrual loans	981.28	385.40	1,091.41	388.05	165.60
Average total loans	272,842	258,988	228,009	191,650	169,096
Net charge offs to average loans	0.05%	0.06%	0.09%	0.06%	0.09%

A breakdown of the allowance for loan losses for James River's banking subsidiaries at the periods indicated is provided in the following table; however, management of James River does not believe that the allowance for loan losses can be fragmented by category with any precision that would be useful to investors. The breakdown of the allowance for loan losses is based primarily upon those factors discussed above in computing the allowance for loan losses as a whole. Because all of these factors are subject to change, the breakdown is not necessarily indicative of the category of future loan losses. The amounts reported below for 1994 include FCB's applicable balances as of June 30 for the period indicated.

Allocation of Allowance for Loan Losses in Dollars

	December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
Commercial	$ 600	$ 846	$ 625	$ 516	$ 902
Real estate-commercial	1,479	1,161	1,152	1,004	790
Real estate-construction and land development	145	85	84	75	8
Real estate-mortgage	647	808	852	950	658
Agricultural	221	176	21	22	92
Installment	735	381	442	324	241
Total allowance for loan losses	$ 3,827	$ 3,457	$ 3,176	$ 2,891	$ 2,691

The following table sets forth the composition of the loan portfolio of James River's banking subsidiaries on a consolidated basis (by percentage) for the five years ended December 31, 1998. The amounts reported below for 1994 include FCB's applicable balances as of June 30 for the period indicated.

Amount of Loans to Gross Loans by Percentages

	December 31,				
	1998	1997	1996	1995	1994
Commercial	12.1%	13.1%	9.7%	11.6%	8.9%
Real estate-commercial	18.0%	19.2%	8.5%	7.6%	10.2%
Real estate-construction and land development	9.0%	7.5%	6.0%	4.0%	2.4%
Real estate-mortgage	51.3%	49.4%	64.8%	66.7%	63.9%
Agricultural	0.9%	1.8%	1.0%	0.6%	0.5%
Installment	8.7%	9.0%	10.0%	9.5%	14.1%
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

The following table details information concerning nonaccrual, restructured and past due loans, as well as foreclosed assets for James River's banking subsidiaries, for the dates indicated. The amounts reported below for 1994 include FCB's applicable balances as of June 30 for the period indicated.

Non-performing Assets

December 31,

	1998	1997	1996	1995	1994
	(dollars in thousands)				
Nonaccrual loans	$ 390	$ 897	$ 291	$ 745	$ 1,625
Foreclosed assets	264	573	171	4	496
Total non-performing assets	$ 654	$ 1,470	$ 462	$ 749	$ 2,121
Loans past due 90 or more days accruing interest	$ 427	$ 431	$ 857	$ 683	$ 203
Non-performing loans to total loans, at period end	0.14%	0.34%	0.12%	0.36%	0.91%
Non-performing loans to period end loans and foreclosed assets	0.14%	0.34%	0.12%	0.36%	0.91%

As of December 31, 1998, loans 30 days or more delinquent for James River's banking subsidiaries totaled $4.7 million, which includes those non-performing loans above that have possible credit problems and cause management to have concerns about the borrowers' continuing ability to comply with existing repayment terms. Of these potential problem loans, $3.1 million are secured by security interests in real estate.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," on January 1, 1995. Under this standard, a loan is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Increases and decreases in the allowance due to changes in the measurement of impaired loans, if applicable, are included in the provision for loan losses. Loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable. When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

The recorded investments in impaired loans requiring an allowance for loan losses as determined in accordance with SFAS No. 114 were $1,408,000, $2,017,000 and $3,137,000 at December 31, 1998, 1997 and 1996, respectively. The impaired loans at December 31, 1998, consisted of $35,000 of commercial, $78,000 real estate-commercial, $1,151,000 real estate mortgage, $120,000 agricultural loans, and $24,000 personal loans. The impaired loans at December 31, 1997, consisted of $227,000 of commercial, $818,000 real estate-commercial, $386,000 real estate mortgage, and $586,000 agricultural loans. The impaired loans at December 31, 1996, consisted of $1,871,000 of commercial and $1,266,000 real estate-commercial loans. All of the impaired loans at December 31, 1998, 1997 and 1996, were measured using the fair value of collateral method. The portion of the allowance for loan losses allocated to the impaired loan balance was $162,000, $423,000 and $558,000 at December 31, 1998, 1997 and 1996, respectively.

Investments

The carrying value of the investment portfolio of James River and its subsidiaries was $89.0 million at December 31, 1998, compared to $83.0 million at December 31, 1997. The average balance of the investment portfolio decreased $6.4 million or 6.9% in 1998 compared to 1997. The average balance of the portfolio decreased 10.1%, or $10.3 million, in 1997.

At December 31, 1998, 1997, and 1996, there was no obligation of any issuer in the investment portfolio, exclusive of obligations of the U.S. Government or U.S. agencies and corporations, which in the aggregate exceeded 10% of shareholders' equity.

The market value of James River and its subsidiaries Held-to-Maturity securities was 102.6% and 101.5% of carrying value at years ended December 31, 1998 and 1997, respectively.

The following table summarizes the carrying values of securities for James River and its subsidiaries for the dates indicated.

Securities Portfolio

December 31,

	1998	1997	1996
	(dollars in thousands)		
U. S. Treasury and other government agencies	$ 50,211	$ 43,535	$ 62,576
State and political subdivisions	27,411	25,789	26,712
Other securities	11,065	13,701	14,198
Total Securities	$ 89,017	$ 83,025	$103,486

The following table sets forth the maturity distribution and weighted average yields of the investment portfolio of James River and it subsidiaries at December 31, 1998. The weighted average yields are calculated on the basis of book value of the investments portfolio and on the interest income of investments adjusted for amortization of premium and accretion of discount. Yields on tax-exempt investments have been computed on a tax equivalent basis assuming a federal tax rate of 34%.

Maturities of Investments

	December 31, 1998		
	Book Value	Market Value	Weighted average yield
	(Dollars in thousands)		
U.S. Treasury securities			
One year or less	$ 2,353	$ 2,379	4.46%
After one year to five years	4,131	4,310	4.65%
After five years to ten years	514	523	4.72%
After ten years	-	-	
Total	6,998	7,212	4.59%
Federal agency securities			
One year or less	1,260	1,254	6.37%
After one year to five years	28,210	28,419	5.34%
After five years to ten years	5,068	5,057	5.90%
After ten years	8,202	8,269	6.06%
Total	42,740	42,999	5.68%
State and political subdivisions securities			
One year or less	2,197	2,220	5.14%
After one year to five years	10,493	10,795	5.66%
After five years to ten years	13,647	14,054	6.26%
After ten years	696	717	6.59%
Total	27,033	27,786	5.94%
Federal Reserve Bank Stock and other equity stock			
One year or less	-	-	
After one year to five years	-	-	
After five years to ten years	-	-	
After ten years	3,047	3,069	-
Total	3,047	3,069	-
Other debt securities			
One year or less	100	102	6.12%
After one year to five years	509	522	5.12%
After five years to ten years	-	-	-
After ten years	7,372	7,555	6.41%
Total	7,981	8,179	6.34%
Total securities	87,799	89,245	5.68%
Unrealized gain on securities available-for-sale	1,218	-	
Total securities at period end	$ 89,017	$89,245	

Deposits

James River's banking subsidiaries primarily use deposits to fund their loan and investment portfolios. Since the end of 1996, as demonstrated below, James River's banking subsidiaries have continued to experience deposit growth, especially in interest bearing checking, non-interest bearing checking, and time deposits. Average balances in total deposits increased from $268.1 million in 1995 to $321 million in 1996, a growth of $52.9 million or 19.8%. Approximately 60% of the increase in average total deposits in 1996 was attributable to the deposit base purchased by JRB in the Franklin and Courtland branches. For the comparable period ending December 31, 1997, average total deposits increased $22.2 million or 6.9%. For the period ending December 31, 1998, average total deposits increased $14.4 million, or 4.1%.

The following table details the average amount of, and the average rate paid on, the following primary deposit categories for James River's banking subsidiaries for the periods indicated.

Average Deposits and Average Rates Paid

	Years ended December 31,					
	1998		1997		1996	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Interest-bearing deposits:						
Checking	$ 47,956	2.83%	$ 37,023	2.56%	$ 36,242	2.67%
Money market savings	23,135	3.52%	23,391	3.22%	23,035	3.31%
Regular savings	46,087	3.26%	48,601	3.35%	47,613	3.42%
Certificates of deposit:						
$100,000 and over	33,588	3.78%	29,396	4.59%	24,834	5.61%
Under $100,000	164,233	5.92%	165,010	5.75%	155,254	5.66%
Total interest-bearing deposits	314,999	4.66%	303,421	4.67%	286,978	4.72%
Non-interest bearing	42,575		39,789		34,059	
Total deposits	$ 357,574	4.10%	$ 343,210	4.12%	$ 321,037	4.22%

The following is a summary of the maturity distribution of certificates of deposit in amounts of $100,000 or more for James River's banking subsidiaries as of December 31, 1998:

Maturities of CDs of $100,000 or More
at December 31, 1998

<TABLE>
<CAPTION>

<S>	Amount <C>	Percent <C>
	(Dollars in thousands)	
Three months or less	$ 7,109	20.7%
Over three months to twelve months	15,008	43.7%
Over twelve months	12,190	35.5%
	34,307	100.0%

</TABLE>

Certificates of deposit in amounts of $100,000 or more at December 31, 1998 and 1997 were $34.3 million and $32.9 million, respectively. The balance of $32.9 million at December 31, 1997, represented 16.9% of total certificates of deposit. The December 31, 1998 amount represents 16.9% of the total certificates of deposit balance of $203.1 million at that date.

James River's banking subsidiaries do not accept brokered deposits, and all large certificates of deposit are community based.

Short-Term Borrowings

James River's banking subsidiaries occasionally find it necessary to purchase federal funds on a short-term basis due to fluctuations in loan and deposit levels. James River's banking subsidiaries have several arrangements pursuant to which they may purchase funds. Borrowings of James River's banking subsidiaries include the purchase and sale of federal funds, and securities sold under repurchase agreements. Set forth below are short term borrowings for James River's banking subsidiaries at the periods indicated.

Short-Term Borrowings

	Years ended December 31, 1998	1997	1996
	(dollars in thousands)		
Average daily amount of short-term borrowings outstanding during the period	$ 831	$ 620	$ 396
Weighted average interest rate on average daily short-term borrowings	5.63%	6.45%	5.81%
Maximum outstanding short-term borrowings outstanding at any month end	1,601	4,000	4,456
Short-term borrowings outstanding at period end	$ 719	$ -	$ -

The following table illustrates average balances of interest-earning assets and interest-bearing liabilities for James River and its subsidiaries for the period indicated, showing the average distribution of assets, liabilities, shareholders' equity, and the related income, expense, and corresponding weighted average yields and costs. The average balances used for the purposes of these tables and other statistical disclosures were calculated by using the daily average balances

Average Balances, Interest Income and Expenses, and Average Yields and Rates
<TABLE>
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	Years Ended December 31, 1998			1997			1996		
	Average Balance	Interest Income/ Expense	Average Yield/ rate	Average Balance	Interest Income/ Expense	Average Yield/ rate	Average Balance	Interest Income/ Expense	Average Yield/ rate
				(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:									
Interest bearing assets:									
Securities:									
U.S. Treasury	$ 10,034	$ 631	6.29%	$ 12,317	$ 784	6.37%	$ 15,496	$ 977	6.30%
Federal agency	44,394	2,825	6.36%	40,317	2,546	6.31%	36,669	2,317	6.32%
State and political subdivisions	27,007	1,966	7.28%	25,075	1,916	7.64%	26,709	2,053	7.69%
Federal reserve stock	1,943	142	7.31%	1,732	123	7.10%	1,476	91	6.17%
Other securities	1,888	138	7.31%	12,185	839	6.89%	21,538	1,490	6.92%
Total Securities	85,266	5,702	6.69%	91,626	6,208	6.78%	101,888	6,928	6.80%
Loans:									
Commercial	70,282	6,168	8.78%	66,152	5,959	9.01%	50,209	4,606	9.17%
Real estate-construction	20,186	1,602	7.94%	17,580	1,678	9.54%	11,230	1,099	9.79%
Real estate-mortgage	151,926	13,330	8.77%	146,564	12,732	8.69%	143,227	12,182	8.51%
Installment	30,448	3,347	10.99%	28,692	3,104	10.82%	23,343	2,562	10.98%
Total Loans	272,842	24,447	8.96%	258,988	23,473	9.06%	228,009	20,449	8.97%
Interest bearing deposits in other banks	9,668	553	5.72%	2,161	163	7.54%	1,690	147	8.70%
Federal funds sold	10,020	556	5.55%	6,488	373	5.75%	6,653	363	5.46%
Total money market investments	19,688	1,109	5.63%	8,649	536	6.20%	8,343	510	6.11%
Total interest-earning assets/ total interest income	377,796	31,258	8.27%	359,263	30,217	8.41%	338,240	27,887	8.24%

Non-interest earning assets:									
Cash and due from banks	13,029			12,743			11,608		
Other assets	8,615			8,729			7,315		
Less: Allowance for loan losses	(3,621)			(3,379)			(3,033)		
Fixed assets	9,119			8,477			6,918		
Total non-interest earning assets	27,142			26,570			22,808		
Total Assets	$ 404,938			$ 385,833			$361,048		
Liabilities and shareholders' equity:									
Interest bearing liabilities:									
Interest bearing deposits:									
Checking	$ 47,956	$ 1,355	2.83%	$ 37,023	$ 949	2.56%	$ 36,242	$ 966	2.67%
Money market savings	23,135	815	3.52%	23,391	753	3.22%	23,035	762	3.31%
Regular savings	46,087	1,503	3.26%	48,601	1,626	3.35%	47,613	1,627	3.42%
Certificates of deposit:									
$100,000 and over	33,588	1,269	3.78%	29,396	1,348	4.59%	24,834	1,392	5.61%
Under $100,000	164,233	9,723	5.92%	165,010	9,481	5.75%	155,254	8,790	5.66%
Total interest bearing deposits	314,999	14,665	4.66%	303,421	14,157	4.67%	286,978	13,537	4.72%
Federal funds purchased & other	831	47	5.66%	620	40	6.45%	396	23	5.81%
Total interest bearing liabilities/ total interest expense	315,830	14,712	4.66%	304,041	14,197	4.67%	287,374	13,560	4.72%
Non-interest bearing liabilities:									
Demand deposits	42,575			39,789			34,059		
Other liabilities	4,195			3,267			3,579		
Total non-interest liabilities	46,770			43,056			37,638		
Total liabilities	362,600			347,097			325,012		
Shareholders' equity	42,338			38,736			36,036		
Total Liabilities and Shareholders' equity	$ 404,938			$385,833			$361,048		
Interest spread			3.62%			3.74%			3.53%
Net interest income/net interest margin		$ 16,546	4.38%		$ 16,020	4.46%		$ 14,327	4.24%

</TABLE>

(1) Tax equivalent adjustments (using 34% federal income tax rates) have been made in calculating the yields on tax-free loans and investments.

(2) For the purposes of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.

(3) Daily average balances are calculated using the aggregate daily average balances on a monthly basis.

(4) The yield/rate of the investment securities is computed using the amortized cost basis.

The following table describes the impact on the interest income of James River and its subsidiaries resulting from changes in average balances and average rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

<TABLE>
<CAPTION>

Rate and Volume Analysis

Years ended December 31,

	1998 compared to 1997			1997 compared to 1996		
		Change Due To:			Change Due To:	
	Increase (Decrease)	Rate	Volume	Increase (Decrease)	Rate	Volume
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:						
Securities:						
U.S. Treasury	$ (153)	$ (8)	$ (145)	$ (193)	$ 7	$ (200)

Federal agency	279	22	257	229	(2)	231
State and political subdivisions	50	(98)	148	(137)	(11)	(126)
Federal Reserve stock	19	4	15	32	16	16
Other equity securities	(701)	8	(709)	(651)	(4)	(647)
Total Securities	(506)	(72)	(434)	(720)	6	(726)
Loans:						
Commercial	209	(163)	372	1,353	(110)	1,463
Real estate-construction	(76)	(325)	249	579	(42)	621
Real estate-mortgage	598	132	466	550	266	284
Installment	243	53	190	542	(45)	587
Total Loans	974	(303)	1,277	3,024	69	2,955
Interest bearing deposits in other banks	390	(176)	566	16	(25)	41
Federal funds sold	183	(20)	203	10	19	(9)
Total money market investments	573	(196)	769	26	(6)	32
Total interest income	1,041	(571)	1,612	2,330	69	2,261
Interest expense:						
Interest bearing deposits:						
Checking	406	126	280	(17)	(38)	21
Money market savings	62	70	(8)	(9)	(21)	12
Regular savings	(123)	(39)	(84)	(1)	(35)	34
Certificates of deposit:						
$100,000 and over	(79)	(271)	192	(44)	(300)	256
Under $100,000	242	287	(45)	691	139	552
Total interest bearing deposits	508	173	335	620	(255)	875
Federal funds purchased	7	(7)	14	17	4	13
Total interest expense	515	166	349	637	(251)	888
Net interest income	$ 526	$ (737)	$ 1,263	$ 1,693	$ 320	$ 1,373

</TABLE>

Interest Sensitivity

An important element of both earnings performance and liquidity is management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest-sensitive assets and interest-sensitive liabilities in a specific time interval. The gap can be managed by repricing assets or liabilities, by selling investments held for sale, by replacing an asset or liability at maturity, or by adjusting the interest rate during the life of an asset or liability. Matching the amounts of assets and liabilities repricing in the same time interval helps to hedge the interest rate risk and minimize the impact on net interest income in periods of rising or falling interest rates.

James River's banking subsidiaries evaluate interest sensitivity risk and then formulate guidelines regarding asset generation and pricing, funding sources and pricing, and off-balance sheet commitments in order to decrease sensitivity risk. These guidelines are based upon management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors.

On December 31, 1998, James River and it subsidiaries had $80.7 million more in liabilities than assets that repriced within three months or less and was, therefore, in a liability-sensitive position. Positive gaps can affect earnings adversely in a period of falling rates, while negative gaps can adversely impact earnings in a period of rising rates. To reduce the impact of shifts in prevailing interest rates, $107.7 million of the loan portfolio of James River's banking subsidiaries at December 31, 1998, had a repricing frequency of less than one year. Moreover, as of December 31, 1998, James River and its banking subsidiaries collectively held $80.2 million in investments held as "Available for Sale" which could be sold quickly to meet any special funding needs.

The following table illustrates the interest sensitivity gap position of James River and its subsidiaries as of December 31, 1998. This table presents a position that existed at one particular day, that changes continually, and that is not necessarily indicative of James River's position at any other time.

Interest Sensitivity Analysis

	December 31, 1998 Maturity or Repricing In:			
	3 Months or Less	4-12 Months	1-5 Years	Over 5 Years
	(Dollars in thousands)			
Interest-sensitive assets:				
Loans	$ 72,834	$ 34,821	$116,471	$ 55,192
Securities	600	5,355	44,019	39,043
Federal Funds sold	10,809	-	-	-
Total interest-sensitive assets	$ 84,243	$ 40,176	$160,490	$ 94,235
Cumulative interest-sensitive assets	$ 84,243	$ 124,419	$284,909	$379,144
Interest-sensitive liabilities:				
NOW accounts	$ 58,187	$ -	$ -	$ -
Regular savings	44,037	-	-	-
Certificates of deposit	42,172	89,570	70,416	985
Money market savings	20,600	-	-	-
Total interest-sensitive liabilities	$164,996	$ 89,570	$ 70,416	$ $ 985
Cumulative interest-sensitive liabilities	$164,996	$ 254,566	$324,982	$325,967
Period gap	$(80,753)	$ (49,394)	$ 90,074	$ 93,250
Cumulative gap	$(80,753)	$(130,147)	$(40,073)	$ 53,177
Ratio of cumulative interest-sensitive assets to interest-sensitive liabilities	51.06%	48.87%	87.67%	116.31%
Ratio of cumulative gap to total assets	(0.19)	(0.31)	(0.10)	0.13

Return on Equity and Assets

The following table summarizes ratios for James River and its subsidiaries considered to be significant indicators of James River's profitability and financial condition during the periods indicated:

Return on Equity and Assets

	Years ended December 31,		
	1998	1997	1996
Return on average assets	1.06%	0.99%	0.67%
Return on average equity	10.18%	9.82%	6.71%
Dividend payout ratio	36.15%	36.05%	52.80%
Average equity to average asset ratio	10.46%	10.04%	9.98%

Market Area and Competition

James River has four operating bank subsidiaries with a total of 24 banking offices that conduct operations from the Tidewater region of

Southeastern Virginia to the tri-city areas of Hopewell, Petersburg and Colonial Heights in South-central Virginia. All of James River's subsidiaries operate in highly competitive environments, competing for deposits and loans with other financial institutions, many of which possess greater financial resources than those available to James River's subsidiaries. Certain of these institutions have higher lending limits than James River's subsidiaries and may provide various services for their customers which James River's subsidiaries do not offer directly to their customers. In addition, there can be no assurance that other financial institutions, with substantially greater resources than James River's subsidiaries, will not establish operations in their respective service areas.

Supervision and Regulation of James River's Banking Subsidiaries

James River's subsidiaries are subject to state and federal banking laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of their operations. Any change in applicable laws or regulations may have a material adverse effect on the business and prospects of James River.

All four of James River's banking subsidiaries are state chartered banks and members of the Federal Reserve System. As such, all are subject to supervision, examination and regulation by the Virginia Bureau of Financial Institutions and the Federal Reserve. With the exception of FCB, the banking subsidiaries' deposits are insured by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation ("FDIC"). FCB's deposits continue to be insured by the Savings Association Insurance Fund ("SAIF") following its conversion from a federal savings bank to a Virginia state bank.

Federal and state banking laws and regulations govern all areas of the operations of the banking subsidiaries, including maintenance of cash reserves, loans, mortgages, maintenance of minimum capital, payment of dividends, and establishment of branch offices. Federal and state bank regulatory agencies also have the general authority to eliminate dividends paid by insured banks if such payment is deemed to constitute an unsafe or unsound practice. The Federal Reserve has authority to impose penalties, initiate civil administrative actions, and take other steps to prevent the bank subsidiaries from engaging in unsafe or unsound practices. In this regard, the Federal Reserve has adopted capital adequacy requirements applicable to its member banks.

Supervision and Regulation of James River

General. As a bank holding company, James River is subject to state and federal banking and bank holding company laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of its operations.

Bank Holding Companies. As a bank holding company registered under the Bank Holding Company Act ("BHC Act"), James River is subject to regulation by the Federal Reserve. The Federal Reserve has jurisdiction under the BHC Act to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company.

The Federal Reserve may require a bank holding company to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the "cross-guarantee" provisions of the federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by either the SAIF or the BIF as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions. James River also is registered under the bank holding company laws of Virginia. Accordingly, James River and its subsidiaries are subject to regulation and supervision by the BIF.

Capital Requirements. The Federal Reserve, the Office of the Comptroller of the Currency and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies, James River and its subsidiaries are required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8%. At least half of the total capital is required to be "Tier 1 capital," which consists principally of common and certain qualifying preferred shareholders' equity, less certain intangible assets and other adjustments. The remainder, "Tier 2 capital", consists of a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments) and a limited amount of the general loan loss allowance. The Tier 1 and total capital to risk-weighted assets ratios of James River as of December 31, 1998 were 15.6% and 16.9%, respectively, exceeding the minimums required.

In addition, each of the federal regulatory agencies has established a minimum leverage capital ratio (Tier 1 capital to average tangible assets). These guidelines provide for a minimum ratio of 3% for banks and bank holding companies that meet certain specified criteria, including that they have the highest regulatory examination rating and are not contemplating significant growth or expansion. All other institutions are expected to maintain a leverage ratio of at least 100 to 200 basis points above the minimum. The leverage ratio of James River as of December 31, 1998, was 9.8%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The following table sets forth in detail the various capital ratios of James River and its subsidiaries on a consolidated basis at the dates indicated.

Analysis of Capital

	December 31, 1998	December 31, 1997	December 31, 1996
	(Dollars in thousands)		
Tier 1 Capital:			
Common stock	$ 18,607	$ 18,363	$ 12,290
Additional Paid Capital	3,878	3,572	3,521
Retained earnings	20,414	17,663	21,629
Less: Intangibles	(2,236)	(2,504)	(2,750)
Total Tier 1 capital	$ 40,663	$ 37,094	$ 34,690
Tier 2 Capital:			
Allowance for loan losses	3,260	3,151	2,702
Total Tier 2 capital	$ 3,260	$ 3,151	$ 2,702
Total Risk-Based Capital	$ 43,923	$ 40,245	$ 37,392
Risk-weighted assets	$260,267	$252,115	$216,158
Capital Ratios:			
Tier 1 risk-based capital ratio	15.62%	14.71%	16.05%
Total risk-based capital ratio	16.88%	15.96%	17.30%
Tier 1 capital to average adjusted total assets	9.84%	9.68%	9.68%

Deposit Insurance. The deposits of the Company's banking subsidiaries are insured up to $100,000 per insured depositor (as defined by law and regulation) by the FDIC through the SAIF and the BIF. The SAIF and the BIF are administered and managed by the FDIC. As insurer, the FDIC is authorized to conduct examinations of and to require reporting by SAIF and BIF-insured institutions. FIRREA also authorizes the FDIC to prohibit any SAIF and BIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the SAIF and BIF.

Section 38 of the Federal Deposit Insurance Act, as amended by the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), requires that the federal banking agencies establish five capital levels for insured depository institutions - "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and, "critically undercapitalized" - and requires or permits such agencies to take certain supervisory actions as an insured institution's capital level falls. The Company has been notified by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") that it is classified as a "well capitalized" institution for this purpose.

Governmental Monetary Policies and Economic Controls. James River and its banking subsidiaries are affected by monetary policies of regulatory authorities, including the Federal Reserve, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the Federal Reserve are engaging in open market transactions in United States Government securities, changing the discount rate on bank borrowings, and changing reserve requirements against bank deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments and deposits. Their use may also affect interest rates charged on loans or paid on deposits. The effect of governmental policies on the earnings of James River cannot be predicted.

Employees

At December 31, 1998, James River and its subsidiaries had the equivalent of 232 full time employees. None of the Company's employees are represented by any collective bargaining unit. James River considers relations with its employees to be good.

Year 2000 Issue

The information captioned "Year 2000 Project" appearing on pages 11 through 13 of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 2. Properties

James River's headquarters are located at 1514 Holland Road, Suffolk, Virginia. The headquarters are owned by James River. James River does not have any interest in any other properties other than those owned or leased by its subsidiaries. James River's four banking subsidiaries collectively own 20 of their 24 branch banking offices and lease the land for three offices.

Item 3. Legal Proceedings

In the course of its operation, James River and its subsidiaries are parties to various legal proceedings. James River does not believe that the outcome of these lawsuits, individually or in the aggregate, will have a material adverse effect on James River's business, financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to James River's shareholders for a vote during the fourth quarter of the year ended December 31, 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

The information included under "Market Price for Common Stock" appearing on page 40 of the Annual Report is incorporated herein by reference.

Item 6. Selected Consolidated Financial Data

The information included under "Five Year Financial Summary" appearing on page 14 of the Annual Report is incorporated herein by reference.

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

The information included under "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 7 through 13 of the Annual Report is incorporated herein by reference.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The information captioned "Liquidity and Market Risk" appearing on pages 10 and 11 of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

(a) The Financial Statements and the notes thereto appearing on pages 16 through 37 of the Annual Report are incorporated herein by reference.

(b) Unaudited quarterly financial information for the Company is contained in Note 16 on page 37 of the Financial Statements included in the Annual Report and is incorporated herein by reference. The quarterly financial information in the Annual Report is presented on a restated basis and reflects consolidated results of operations of BOS, JRB, FCB and JRBC for the periods presented.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Information regarding James River's decision to change its independent accountants is contained in Reports on Form 8-K and 8-K/A previously filed with the Securities and Exchange Commission on February 3, 1999 and March 8, 1999.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The Company's Bylaws provide that the number of directors shall be between seven and seventeen. Directors serve a one year term. In two separate transactions that closed in February 1996, the Company acquired First Colonial Bank ("FCB") in Hopewell, Virginia ("FCB Transaction") and Bank of Isle of Wight, now named James River Bank/Colonial ("Colonial") in Smithfield, Virginia ("Colonial Transaction"), pursuant to which FCB and Colonial became wholly owned subsidiaries of the Company. In accordance with the respective negotiated terms of the FCB Transaction and Colonial Transaction, Ben P. Kanak and James C. Stewart, directors of FCB, and John A. Ramsey, Jr. and Robert E. Spencer, Jr., directors of Colonial, were all appointed to the Company's Board of Directors in March 1996. The separate terms of the FCB Transaction and Colonial Transaction required that Messrs. Kanak and Stewart, on the one hand, and Messrs. Ramsey and Spencer, on the other hand, be nominated for election as directors at the Company's 1997 and 1998 Annual Meetings to serve a one year term. For information regarding an Early Retirement Agreement between FCB and James C. Stewart, see "Item 11. Executive Compensation - Stewart Retirement Agreement."

The following information relates to the Company's directors and executive officers. There are no family relationships among any of the directors, except that Mr. Elmon Gray is the father of Mr. Bruce Gray, nor is there any arrangement or understanding between any director pursuant to which the director was elected, except as otherwise described above with respect to Messrs. Kanak, Stewart, Ramsey and Spencer.

Harold U. Blythe, 56, the Company's President and Chief Executive Officer, has been an executive officer and director of the Company since it was initially organized in December 1994. From 1989 until 1997, Mr. Blythe was President and Chief Executive Officer of Bank of Suffolk ("BOS"), one of the Company's wholly owned banking subsidiaries. Mr. Blythe also served as a director of BOS from 1989 until 1997. Mr. Blythe is Chairman of the Board of James River Support, Inc., the Company's non-banking operations subsidiary, and Chairman of the Board of Mortgage Company of James River, Inc. ("MCJR"), the Company's residential mortgage lending subsidiary. He is also Chairman of the Board of Family Finance Corp., a consumer finance subsidiary of the Company. Mr. Blythe is also a director of Community Bankers Bank, Richmond, Virginia.

James E. Butler, Jr., 73, has been a director of the Company since December 1994 and a director of BOS since 1973. Mr. Butler is the President of Butler Paper Company.

Bruce B. Gray, 45, the Company's Vice Chairman, has been a director of the Company since December 1994. From 1993 until 1997, he was Chairman of the Board of James River Bank ("JRB"), one of the Company's wholly owned banking subsidiaries, and served as a director of JRB from 1977 until 1997. Mr. Bruce Gray is Vice President of Gray Lumber Co., Gray Land & Timber Co. and Gray Co. Mr. Bruce Gray is also a partner of Grayland Co. and Gray Loblolly Co.

Elmon T. Gray, 73, has been a director of the Company since December 1994, and served as the Company's Chairman of the Board from 1994 until 1997. Mr. Elmon Gray was a director of JRB from 1949 until 1996, serving as Chairman of the Board from 1977 to 1993. Mr. Elmon Gray has been President of Gray Lumber Co. since 1952 and President of Gray Co. since 1993. He was President of Gray Land & Timber Co. from 1992 until 1993. Mr. Gray is a partner of Grayland Co. and Gray Loblolly Co.

Horace R. Higgins, Jr., 51, was elected as a director of the Company in 1998 and has been President of Higgins Trucking Company for over 26 years. Mr. Higgins served as director of JRB from 1984 until 1998.

G. P. Jackson, 72, the Company's Chairman of the Board, has been a director of the Company since December 1994. Mr. Jackson also is currently the Chairman of the Board of BOS and has been a director of BOS since 1967. Mr. Jackson is engaged in real estate rentals and contracting, and serves as President of G.P. Jackson, Inc., Jackson & Jackson Bros., Inc., Holland and Jackson, Inc. and Suffolk Glass, Inc.

Ben P. Kanak, 76, was appointed to the Board of Directors in March 1996 after consummation of the FCB Transaction as described above. Mr. Kanak is currently Chairman of the Board of Directors of FCB, a position he has held since 1982. Mr. Kanak has been a director of FCB since FCB was formed in 1972. Mr. Kanak also serves as a member of the Board of Directors of Plant Food Products, Inc. Mr. Kanak has been an independent farmer since 1942.

John A. Ramsey, Jr., 69, was appointed to the Board of Directors in March 1996 after consummation of the Colonial Transaction as described above. Mr. Ramsey has been Chairman of the Board of Directors of Colonial since 1991, and is a charter director of Colonial having served as a director since 1971. Mr. Ramsey is a farmer, and has been President of Ramsey Brothers, Inc. since 1991, which farms numerous properties in and around Isle of Wight County, Virginia. He has also been President of Prescription Fertilizer, Inc. since 1991.

Robert E. Spencer, Jr., 57, was appointed to the Board of Directors in March 1996 after consummation of the Colonial transaction. Mr. Spencer is a Senior Vice President of the Company and is responsible for bank investments and asset/liability management, a position to which he was appointed in 1997. Mr. Spencer served Colonial as a director and President and Chief Executive Officer from 1986 until 1997. He is also a director of MCJR.

James C. Stewart, 60, was appointed to the Board of Directors in March 1996 after the consummation of the FCB Transaction. Mr. Stewart has been a director, President and Chief Executive Officer of FCB since 1973. Mr. Stewart is also a director of MCJR and Family Finance Corp. Mr. Stewart has entered into an Early Retirement Agreement with FCB. See "Item 11. Executive Compensation - Stewart Retirement Agreement."

Donald W. Fulton, Jr., 52, is the Company's Senior Vice President and Chief Financial Officer, a position to which he was appointed in January 1998. He is also the Treasurer of MCJR. From 1968 to October 31, 1997, Mr. Fulton served as an executive officer of Jefferson Bankshares, Inc. of Charlottesville, Virginia as its Vice President-Investor Relations. Jefferson Bankshares was acquired by Wachovia Corporation on October 31, 1997. From that date through December 31, 1997, Mr. Fulton was employed by Wachovia on merger transition activities pertaining to financial reporting, corporate communications, and corporate securities matters.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors, officers and persons who beneficially own more than 10% of a registered class of equity securities of the Company to file initial reports of ownership (Forms 3) and reports of changes in beneficial ownership (Forms 4 and 5) with the Securities and Exchange Commission ("SEC") and NASDAQ. Such persons are also required under the rules and regulations promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company, the Company believes that all reporting requirements under Section 16(a) for 1998 were met in a timely manner by its directors, officers and greater than 10% beneficial owners, except that sales of Company common stock by James C. Stewart which took place in May and June 1998 and a transfer by him of Company common stock which took place in September 1998 were not reported on a Form 4, but were reported on a Form 5 on February 12,1999.

Item 11. Executive Compensation.

The following table presents an overview of executive compensation paid by the Company and its subsidiaries during 1998, 1997 and 1996 to Harold U. Blythe, President and Chief Executive Officer of the Company and to the three other executive officers of the Company whose combined salary and bonus exceeded $100,000 in 1998 (collectively the "Named Executive Officers"). No other executive officer of the Company or any banking subsidiary received combined salary and bonus in excess of $100,000 during 1998.

<TABLE>
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Summary Compensation Table

	Annual Compensation			Long Term Compensation	
Name and principal positon	Year	Salary($)	Bonus($)	Securities Underlying Options(#)	All other Compensation
<S>	<C>	<C>	<C>	<C>	<C>
Harold U. Blythe, President and CEO	1998	$ 140,184	$16,272 (1)	0	$ 12,213 (2)
of the Company	1997	136,224	13,622 (1)	0	14,701 (2)
	1996	132,000 (3)	6,600	37,500 (4)	18,882 (5)
Robert E. Spencer, Jr. Senior Vice	1998	106,980 (6)	12,838 (1)	0	9,628 (2)
President - Bank Investments and	1997	104,425	16,082 (1)	0	9,002 (2)

Asset/Liability Management	1996	95,656	4,963	22,500 (4)	6,192 (2)
Donald W. Fulton, Jr., Senior Vice President and Chief Financial Officer	1998	102,000 (7)	12,240 (1)	22,500 (4)	20,456 (8)
James C. Stewart, President of FCB (9)	1998	137,566 (10)	9,428 (1)	0	10,114 (2)
	1997	134,671 (11)	32,179 (12)	0	11,974 (1)
	1996	126,960 (13)	-	22,500 (4)	22,191 (14)

</TABLE>

(1) Paid pursuant to the Company's Cash Bonus Program. See "-Cash Bonus Program" below.
(2) Consists of Company contributions to 401(k) and Profit Sharing Plan.
(3) Includes $22,800 of director fees paid by the Company and BOS
(4) Options granted pursuant to the 1996 Employee Stock Option Plan. See "-1996 Employee Stock Option Plan" below.
(5) Consists of premiums paid for life insurance policies and contributions to 401(k) Plan.
(6) Includes $24,012 of director fees paid by the Company and Colonial.
(7) Mr. Fulton joined the Company in January 1998.
(8) Consists of $15,754 of relocation and moving expenses paid pursuant to the Fulton Employment Agreement described in "-Executive Officer Employment Agreements" below. Also includes $4,702 of Company contributions to 401(k) and Profit Sharing Plan.
(9) Pursuant to the terms of an Early Retirement Agreement, Mr. Stewart has resigned as an employee of FCB and director of FCB and the Company effective May 26, 1999. See "Stewart Retirement Agreement" below.
(10) Includes $25,325 of director fees paid by the Company and FCB.
(11) Includes $25,500 of director fees paid by the Company, FCB and FCB's subsidiaries.
(12) Consists of (i) $10,519 bonus for 1996 paid in January 1997 and (ii) $21,660 bonus for 1997 paid in December 1997 pursuant to the Cash Bonus Program.
(13) Includes $23,500 of director fees paid by the Company and FCB.
(14) Consists of funding of FCB's ESOP and life insurance premiums paid by FCB to fund Mr. Stewart's supplemental income plan. Also includes contributions to 401(k) Plan.

Option Grants in Last Fiscal Year

The table below sets forth information regarding stock option grants to Donald W. Fulton, Jr. during the fiscal year ended December 31,1998. No other stock options were granted to Named Executive Officers in 1998.

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Options Granted	% of total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Grant Date Present Value($)
<S>	<C>	<C>	<C>	<C>	<C>
Donald W. Fulton, Jr.	22,500	60%	$21.45	02/25/08(1)	$367,875 (2)

</TABLE>

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(1) 4,500 option shares vested on February 26, 1999. The remaining option shares vest in 4 tranches of 4,500 shares each on February 26, 2000, 2001, 2002 and 2003. Each tranche expires if unexercised on February 25, 2008.
(2) Value determined using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 2.2%, expected volatility of 24%, risk free interest rate of 5.5% and expected life of 5 years. The actual value, if any, that may be realized on the options will depend on the excess of the stock price over the exercise price on the date the option is exercised. Accordingly, there can be no assurance that the value realized on the options will be at or near the value estimated by the Black-Scholes model.

Aggregate Option Exercises and Fiscal Year End Option Values

The table below sets forth information regarding stock options exercised by Named Executive Officers in 1998 and exerciseable and unexerciseable stock options held as of December 31, 1998, by the Named Executive Officers. All of these options were granted pursuant to the Company's 1996 Employee Stock Option Plan except as otherwise indicated.

<TABLE>
<CAPTION>

			Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options At Fiscal Year-End (#)(1)	
Name	Shares Acquired Upon Exercise(#)	Value Realized($)	Exerciseable	Unexerciseable	Exerciseable	Unexerciseable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Harold U. Blythe	2,642	$10,092(2)	12,358	22,500	$48,691(3)	$88,650(3)
Robert E. Spencer, Jr.	0	0	9,000	13,500	35,460(3)	53,190(3)
Donald W. Fulton, Jr.	0	0	0	22,500	0	-(4)
James C. Stewart	6,880	118,542(5)	29,640(6)	13,500	246,607(6)	53,190(3)

</TABLE>

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(1) The closing sale price of the Company's Common Stock on NASDAQ/NMS on December 31, 1998 was $17.50 per share.
(2) Mr. Blythe exercised the options in March, 1998 at an exercise price of $13.56 per share.On the date of exercise, the closing price of the Company's Common Stock on NASDAQ/NMS was $17.38.
(3) The exercise price of these options is $13.56 per share.
(4) The exercise price of these options is $21.45 per share.
(5) Mr. Stewart exercised the options in April, 1998 at an exercise price of $7.27 per share. On the date of exercise, the closing price of the Company's Common Stock on NASDAQ/NMS was $24.50.
(6) Includes 20,640 options which were originally granted by FCB and were converted into options to buy the Company's Common Stock when the Company acquired FCB in February 1996. The exercise price of these options is $7.27 per share. Also includes 9,000 options granted pursuant to the Company's 1996 Employee Stock Option Plan, the exercise price of which is $13.56 per share. On March 16, 1999, Mr. Stewart exercised a total of 43,140 options pursuant to the terms of an Early Retirement Agreement described in "-Stewart Retirement Agreement" below.

Compensation of Directors

Other than Mr. Stewart, directors of the Company who are also employees of the Company or its subsidiaries do not receive director fees. Mr. Stewart and the non-employee directors who serve on the Executive Committee are paid a fee of $1,500 per month and non-employee directors who do not serve on the Executive Committee are paid a fee of $1,000 per month. The Chairman of the Board of the Company, who serves on the Executive Committee, is paid a fee of $1,700 per month. Directors also receive annual retainers and monthly fees if they serve on the Boards of the Company's subsidiary banks. The fees are based on the asset sizes of those banks and are payable in accordance with the following schedule:

ASSETS:	$0-50	$51-100	$101-150	$151-200
	(dollars in millions)			
FEES:				
Annual Retainer payable monthly	$2,400	$3,000	$3,600	$4,200
Monthly board meeting	100	150	200	250
Board Chairman per board monthly	150	200	250	300
Committee meeting	50	75	100	125

In addition to the fees payable above, Mr. Jackson also receives $600 per month from BOS, of which he is Chairman of the Board, for appraisal review services. Directors of the Company currently have the option of receiving registered shares of Common Stock of the Company in lieu of receiving cash payments for director fees.

Executive Officer Employment Agreements

Harold U. Blythe, a director and the President and Chief Executive Officer of the Company is currently compensated pursuant to an Employment Agreement ("Blythe Employment Agreement") that was entered into in June 1995 in connection with the capitalization and formation of the Company by BOS and JRB. The Blythe Employment Agreement has a term of seven years, commencing on July 1, 1995. In 1995, the Compensation Committee of the Board of Directors ("Compensation Committee") established an initial annual salary of $109,200 under the Blythe Employment Agreement which can be adjusted periodically, provided that no adjustment can be made that would provide for a salary lower than the original $109,200. Mr. Blythe's current annual salary under the Blythe Employment Agreement is $142,968, which includes amounts formerly payable to Mr. Blythe as director fees that are now paid as salary. The Blythe Employment Agreement provides that in the event of a change of control of the Company following which Mr. Blythe is not given reasonably equivalent, acceptable duties and responsibilities as he had prior to the change of control, Mr. Blythe may be terminated or resign, and, in either such case, Mr. Blythe is entitled to receive 2.99 times his annual base compensation then being paid to him pursuant to the Blythe Employment Agreement. In the event the Company terminates Mr. Blythe's employment without cause, and provided that Mr. Blythe does not thereafter compete with the Company, the Blythe Employment Agreement provides that Mr. Blythe will receive his regular compensation for a period of one year following termination, or during the remaining term of the agreement, whichever is less.

Effective May 1, 1996, the Company and Mr. Blythe entered into a deferred compensation agreement ("Blythe Deferred Agreement"). The Blythe Deferred Agreement provides for the payment of certain retirement, death and disability benefits. The retirement benefit is payable if Mr. Blythe retires at any time after age 60. Thereafter, the Company will pay Mr. Blythe or his beneficiaries a base monthly benefit of $2,000 per month for 120 consecutive months. The monthly payment is subject to upward or downward adjustment based on cost of living increases or decreases. In the event that Mr. Blythe dies before his retirement date, the Company will pay $5,000 per month for 120 consecutive months to Mr. Blythe's designated beneficiary. In the event Mr. Blythe's employment with the Company terminates prior to retirement as a result of disability, the Company will pay Mr. Blythe a disability benefit of $3,166 per month.

The disability benefit will continue throughout the period of disability or until Mr. Blythe reaches age 60, at which time Mr. Blythe will commence receiving the retirement benefit described above. In addition, in the event Mr. Blythe terminates his employment with the Company for any reason other than death or disability prior to attaining age 60, the Company will pay Mr. Blythe a lump sum termination benefit. Commencing May 1, 1998, the termination benefit is $25,000 and increases by $25,000 on May 1 of each year thereafter for a total of a $100,000 termination benefit should Mr. Blythe terminate employment under the conditions described in the preceding sentence between May 1, 2001 and April 30, 2002. After May 1, 2002, Mr. Blythe is eligible for full retirement benefits. Mr. Blythe's deferred compensation arrangement is funded by a life insurance policy on the life of Mr. Blythe for which the Company pays premiums and is the beneficiary. Finally, the benefits provided under the Blythe Deferred Agreement will immediately vest and become nonforfietable in the event of a Change-in-Control of the Company as defined in the agreement.

The Company has also entered into an employment agreement with Robert E. Spencer, Jr. ("Spencer Employment Agreement"). The Spencer Employment Agreement, which was initially entered into in connection with the Colonial Transaction described in "Item 10 - Directors and Executive Officers of the Registrant", has an initial five year term that commenced in 1996. The Company is currently paying Mr. Spencer a base salary of $109,104 under the Spencer Employment Agreement. If Mr. Spencer is terminated without cause, the Spencer Employment Agreement provides that he will continue to receive his salary for a period of one year following termination of employment. The Spencer Employment Agreement also contains a change of control provision that is the same as that provided for in the Blythe Employment Agreement.

Effective September 1, 1998, the Company and Mr. Spencer entered into a deferred compensation agreement ("Spencer Deferred Agreement"). The Spencer Deferred Agreement provides for the payment of certain retirement, death and disability benefits. The retirement benefit is payable if Mr. Spencer retires any time after the age of 62. Thereafter, the Company will pay Mr. Spencer or his beneficiaries a base monthly benefit of $2,000 per month for 120 consecutive months. The monthly payment is subject to upward or downward adjustment based on cost of living increases or decreases. In the event Mr. Spencer dies before his retirement date, the Company will pay $5,000 per month for 120 consecutive months to Mr. Spencer's designated beneficiary. In the event Mr. Spencer's employment terminates prior to retirement as a result of disability, the Company will pay Mr. Spencer a disability benefit of $3,000 per month. The disability benefit will continue throughout the period of disability or until Mr. Spencer reaches age 62, at which time Mr. Spencer will commence receiving the retirement benefit described above. Finally, in the event Mr. Spencer terminates his employment with the Company for any reason other than death or disability prior to attaining age 62, the Company will pay a lump sum termination benefit. Commencing September 1, 2000, the termination benefit is $50,000 and increases by $25,000 on September 1 for each year thereafter for a total of a $100,000 termination benefit should Mr. Spencer terminate employment under the conditions described in the preceding sentence between September 1, 2002 and August 31, 2003. After September 1, 2003, Mr. Spencer is eligible for full retirement benefits. Mr. Spencer's deferred compensation agreement is funded by a life insurance policy on the life of Mr. Spencer for which the Company pays the premiums and is the beneficiary. The Spencer Deferred Agreement contains Change-in-Control provisions similar to those in the Blythe Deferred Agreement.

On January 1, 1998, the Company entered into an Employment Agreement with Donald W. Fulton, Jr. ("Fulton Employment Agreement"), pursuant to which Mr. Fulton serves as the Company's Senior Vice President and Chief Financial Officer. The initial term of the Fulton Employment Agreement was one year with successive one year renewals upon the mutual agreement of the Company and Mr. Fulton. The Fulton Employment Agreement was extended for a second one year term on January 1, 1999. Under the Fulton Employment Agreement, Mr. Fulton's base salary is currently $104,040. Pursuant to the Fulton Employment Agreement, the Company also granted Mr. Fulton options to purchase 22,500 shares of Common Stock at an exercise price of $21.45 per share. The Fulton Employment Agreement contains termination of employment and change of control provisions similar to those contained in the Blythe Employment Agreement.

The Company and Mr. Fulton entered into a deferred compensation agreement ("Fulton Deferred Agreement") on September 1, 1998. The Fulton Deferred Agreement contains similar terms and provisions as those described above with respect to the Spencer Deferred Agreement. In the event Mr. Fulton terminates his employment for any reason other than death or disability prior to reaching age 62, the Company will pay a lump sum termination benefit. Commencing January 1, 2003, the termination benefit is $50,000 and increases $15,000 on January 1 for each year thereafter for a total of a $125,000 termination benefit should Mr. Fulton terminate employment under the conditions described in the preceding sentence between January 1, 2008 and October 31, 2008. After October 31, 2008, Mr. Fulton is eligible for full retirement benefits.

Stewart Retirement Agreement

FCB has entered into an Early Retirement Agreement with James C. Stewart ("Stewart Retirement Agreement"), a director of the Company and the President and Chief Executive Officer of FCB. Under the terms of the Stewart Retirement Agreement, Mr. Stewart's last day of employment with FCB and last day of service as a director of FCB and the Company will be May 26, 1999. FCB will pay Mr. Stewart, over 24 consecutive semi-monthly pay periods, an amount totaling $140,225, less applicable withholdings required by law. Mr. Stewart will also receive deferred compensation pursuant to the terms of his Deferred Compensation Agreement dated November 1, 1988. Deferred compensation payments will commence June 1, 1999 and will be $40,723 per year over a 15 year period. As long as Mr. Stewart is receiving payments under the Stewart Retirement Agreement, he will continue to be bound by the non-competition restrictions contained in his Employment Agreement with FCB dated February 28, 1997. If Mr. Stewart violates these non competition restrictions, he will forfeit the right to receive any payments otherwise due under the Stewart Retirement Agreement.

Compensation Committee Interlocks and Insider Participation

No member of the Company's Compensation Committee was an officer or employee of the Company during 1998. During 1998, no executive officer of the Company served as a member of the Compensation Committee of another entity, nor did any executive officer of the Company serve as a director of another entity, one whose executive officers served on the Company's Compensation Committee. Two members of the Compensation Committee, Messrs. Jackson and Butler, have outstanding loans with certain of the Company's banking subsidiaries. Each of these loans was made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with unrelated parties and did not involve more than normal risk of collectibility or present other unfavorable features. See "Item 13. Certain Relationships and Related Transactions".

Cash Bonus Program

In 1998, the Compensation Committee of the Company's Board of Directors adopted specific criteria and parameters for awards of cash bonuses to Executive Officers, including certain executive officers of the Company's subsidiaries. Under the Company's cash bonus program ("Bonus Program"), bonuses are paid as a percentage of base salary. The percentage of salary awarded as a bonus is in turn based on the Company's or a particular subsidiary's net after tax income. Executive Officers of the Company receive bonuses based solely on the Company's overall financial performance. Executive Officers of subsidiaries receive bonuses based solely on the financial performance of the subsidiaries by which they are employed and the overall financial performance of the Company.

The Bonus Program currently provides that, absent special circumstances, annual salary adjustments will be limited to cost of living increases. In addition, the maximum bonus under the Bonus Program is 20% of base salary. The specific criteria, terms and conditions of the Bonus Program are subject to adjustment at any time by the Compensation Committee. For 1998, a total of $190,401 in cash bonuses was awarded under the Bonus Program. The chart below sets forth information regarding the cash bonuses for 1998 received by the Named Executive Officers:

Name	Bonus	% of 1998 Base Salary (1)
Harold U. Blythe	$16,272	11.6%
Robert E. Spencer, Jr.	$12,838	12.0%
Donald W. Fulton, Jr.	$12,240	12.0%
James C. Stewart	$ 9,428	8.4%

(1) Percentages relate to 1998 base salary exclusive of director fees that are included in the Named Executive Officers' salary for purposes of the Summary Compensation Table. See-"Summary Compensation Table."

1996 Employee Stock Option Plan

During 1995, the Board and the Compensation Committee studied and considered means by which the Company could award and compensate key employees of the Company in a manner that would align closely the interests of such key employees with the interests of the Company's shareholders. In furtherance of this goal, the Board adopted the 1996 Employee Stock Option Plan ("Option Plan"), which was approved by the Company's shareholders at the 1996 Annual Meeting. The purpose of the Option Plan is to support the business goals of the Company and to attract, retain and motivate management officials of high caliber by providing incentives that will, through the award of options to acquire the Company's Common Stock, associate more closely the interests of Executive Officers and key employees of the Company with the interests of the Company's shareholders. Participation is limited to Executive Officers and key employees of the Company who are in positions in which their decisions, actions and efforts significantly contribute to the success of the Company. In 1998, the Compensation Committee awarded options to purchase 37,500 shares of the Company's Common Stock to eligible employees.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of March 16, 1999, relating to the beneficial ownership of the Company's Common Stock by (i) each of the Company's directors and Named Executive Officers, (ii) all of the Company's current directors and Named Executive Officers as a group, and (iii) other persons known by the Company to be the beneficial owner of more than five percent (5%) of the Company's Common Stock. Except as otherwise set forth below, the Company is not aware of any person or group of affiliated persons who owns more than 5% of the Common Stock of the Company. All of the Company's directors and Named Executive Officers receive mail at the Company's principal executive offices at 1514 Holland Road, Suffolk, Virginia 23434.

Name	Number of Shares Beneficially	Percent of Outstanding

	Owned	Shares
Harold U. Blythe	38,858 (1)	1.04
James E. Butler, Jr.	57,405 (2)	1.53
Bruce B. Gray	99,216 (3)	2.65
Elmon T. Gray	72,512 (4)	1.94
Horace R. Higgins, Jr.	1,763	*
G. P. Jackson	160,000	4.28
Ben P. Kanak	75,176 (5)	2.01
John A. Ramsey, Jr.	51,768 (6)	1.38
Robert E. Spencer, Jr.	44,946 (7)	1.20
Donald W. Fulton, Jr.	5,500 (8)	*
James C. Stewart	123,071 (9)	3.29
Current Directors and Executive Officers as a Group (11 persons)	730,315	19.52
Bank America Corporation(10) 101 South Tryon Street Charlotte, NC 28255	190,656 (11)	5.10

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* Less than 1% ownership

(1) Includes (i) 22,750 shares owned jointly by Mr. Blythe and his wife, (ii) 75 shares owned by Mr. Blythe's wife, for which Mr. Blythe disclaims beneficial ownership, and (iii) 1,500 shares owned by a family trust for which Mr. Blythe has voting and investment power. Also includes options to purchase 12,358 shares of Common Stock that are currently exerciseable, which were granted pursuant to the Company's 1996 Employee Stock Option Plan ("Option Plan").

(2) Includes 4,485 shares owned by Mr. Butler's wife, for which Mr. Butler disclaims beneficial ownership.

(3) Includes (i) an aggregate of 45,314 shares held in six trusts for which Mr. Bruce Gray and Mr. Garland Gray, II share voting and investment power, (ii) an aggregate of 1,602 in custodian accounts for which Mr. Bruce Gray and Mr. Garland Gray, II share voting and investment power. Does not include any shares beneficially owned or otherwise described in this Proxy Statement by or with respect to Mr. Elmon T. Gray or by Mr. Garland Gray, II, Mr. Bruce Gray's father and brother respectively. Mr. Bruce Gray disclaims beneficial ownership of any shares other than the 99,216 shares listed above.

(4) Includes (i) 6,297 shares owned by Mr. Elmon Gray's wife, Pamela B. Gray, and (ii) 63,969 shares owned by various family trusts for which Mr. Elmon Gray shares voting and investment power with NationsBank. Does not include (i) 84,721 shares owned collectively by Elizabeth Gray Duff, Mr. Elmon Gray's sister, and her husband and various children, (ii) 93,900 shares owned collectively by Florence Gray Tullidge, Mr. Elmon Gray's sister, and her husband and various children, (iii) 95,902 shares owned collectively by Mary G. Stettinius, Mr. Elmon Gray's sister, and her husband and various children, or (iv) 15,921 shares owned collectively by Katharine T. Gray, Mr. Elmon Gray's daughter, and her various children. Also does not include any shares beneficially owned or other1wise described in the Proxy Statement by or with respect to Mr. Bruce Gray or Mr. Garland Gray, II, who are both sons of Mr. Elmon Gray. Mr. Elmon Gray disclaims beneficial ownership of any shares other than the 2,246 shares he owns individually and the 63,969 shares owned by family trusts as described above.

(5) Includes 2,571 shares owned by Mr. Kanak's wife, for which Mr. Kanak disclaims beneficial ownership.

(6) Includes 36,792 shares owned jointly by Mr. Ramsey and his wife and 1,320 shares owned by Mr. Ramsey's wife. Mr. Ramsey disclaims beneficial ownership of the 1,320 shares owned directly by his wife.

(7) Includes options to purchase 9,000 shares of Common Stock that are currently exerciseable, which were granted pursuant to the Company's Option Plan.

(8) Includes options to purchase 4,500 shares of Common Stock that are currently exerciseable, which were granted pursuant to the Company's Option Plan.

(9) Includes 1,482 shares owned by Mr. Stewart's wife, for which Mr. Stewart disclaims beneficial ownership and 2,407 shares owned jointly by Mr. Stewart and his wife. Mr. Stewart has entered into an Early Retirement Agreement with FCB. See "Item 11. Executive Compensation- Stewart Retirement Agreement."

(10) Information regarding BankAmerica Corporation ("BankAmerica") has been derived by the Company from a Schedule 13G filed by BankAmerica with the Securities and Exchange Commission ("Schedule 13G"). The 13G states that BankAmerica filed the 13G on behalf of BankAmerica, NB Holdings Corporation, 100 North Tryon Center, Charlotte, NC 28255, and NationsBank, N.A., 110 South Tryon Street, Charlotte, NC 28255.

(11) The Schedule 13G indicates that certain of these shares are subject to shared voting and dispositive power.

Item 13. Certain Relationships and Related Transactions

The directors and executive officers of the Company and its banking subsidiaries, and their family members and certain business organizations and individuals associated with each of them, have been customers of the Company's various subsidiary financial institutions with which they are affiliated, have had normal banking transactions, including loans, with them, and are expected to continue to do so in the future. As of December 31, 1998, the Company's banking subsidiaries had aggregate direct and indirect loans to the directors and executive officers of the Company and its banking subsidiaries totaling approximately $8.76 million, which represented approximately 20% of the Company's shareholders' equity as of that date. Except as set forth below with respect to Mr. Stewart, each of these transactions was made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with unrelated parties and did not involve more than normal risk of collectibility or present other unfavorable features.

James C. Stewart, a Named Executive Officer, currently has two loans outstanding with FCB with an aggregate principal balance of $120,054. These loans were made in 1987 and1988 under then existing FCB loan policies that allowed FCB to make loans to its employees at an interest rate equal to FCB's cost of funds adjusted annually. Under these terms, the current interest rates of Mr. Stewart's loans are 4.85% and 4.88%, respectively. Both of Mr. Stewart's loans are current with no history of payment default and are secured by real property. FCB discontinued the policy of making below market rate loans to its employees in 1989.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. The following consolidated financial statements of the Company at December 31, 1998 and 1997 and for the three years ending December 31, 1998, 1997 and 1996, and the auditors' report thereon are incorporated by reference to the pages indicated in the Annual Report:

Consolidated Financial Statements	Page
Consolidated Balance Sheets	16
Consolidated Statements of Income	17
Consolidated Statements of Shareholders' Equity	18
Consolidated Statements of Cash Flows	19
Notes to Consolidated Financial Statements	20
Report of Independent Auditors	15

2. Financial Statement Schedules - None.

3. The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Form 10-K and such Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K in quarter ended December 31, 1998: None

(c) The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this Form 10-K and such Exhibit Index is incorporated herein by reference.

(d) Financial Statements excluded from Annual Report pursuant to Rule 14(a)-3(b) - Not applicable.

Signatures

In accordance with Section 13 of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, in the City of

Suffolk, State of Virginia, on March 25, 1999.

JAMES RIVER BANKSHARES, INC.

By: /s/ Harold U. Blythe

Harold U. Blythe, President

In accordance with the Exchange Act, this Report has been signed by the following persons in the capacities and on the dates stated. Each person, in so signing, also makes, constitutes and appoints Harold U. Blythe and Robert E. Spencer, Jr. and each of them individually, his true and lawful attorney-in-fact in his place and stead, with full power of substitution, to execute and cause to be filed with the Securities and Exchange Commission, any and all amendments to this Report, including any exhibits or other documents filed in connection therewith.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ G. P. Jackson ------------------------------ G. P. Jackson	Chairman of The Board Director	March 25, 1999
/s/ Bruce B. Gray ------------------------------ Bruce B. Gray	Vice Chairman of The Board and Director	March 25, 1999
/s/ Harold U. Blythe ------------------------------ Harold U. Blythe	President and Chief Executive Officer, Director (Principal Executive Officer)	March 25, 1999
/s/ Donald W. Fulton, Jr. ------------------------------ Donald W. Fulton, Jr.	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 1999
/s/ James E. Butler, Jr. ------------------------------ James E. Butler, Jr.	Director	March 25, 1999
/s/ Elmon T. Gray ------------------------------ Elmon T. Gray	Director	March 25, 1999
/s/ H. R. Higgins, Jr. ------------------------------ H. R. Higgins, Jr.	Director	March 25, 1999
/s/ Ben P. Kanak ------------------------------ Ben P. Kanak	Director	March 25, 1999
/s/ John A. Ramsey, Jr. ------------------------------ John A. Ramsey, Jr.	Director	March 25, 1999
/s/ Robert E. Spencer, Jr. ------------------------------ Robert E. Spencer, Jr.	Director	March 25, 1999
/s/ James C. Stewart ------------------------------ James C. Stewart	Director	March 25, 1999

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
*2.1	Agreement and Plan of Reorganization dated November 21, 1994 (Incorporated by reference to the Registrant's Registration Statement of Form S-4, Commission File No. 33-88322, previously filed with the Commission on January 6, 1995).
*2.2	First Colonial Bank Agreement and Plan of Merger dated June 30, 1995, as amended (Incorporated by reference to the Registrant's Registration Statement on Form S-4, Commission File No. 33-99254, previously filed with the Commission on November 13, 1995).
*2.3	Bank of Isle of Wight Agreement and Plan of Merger dated June 30, 1995 (Incorporated by reference to the Registrant's Registration Statement on Form S-4, Commission File No. 33-99254, previously filed with the Commission on November 13, 1995).
*3.1	Articles of Incorporation of James River Bankshares, Inc. (Incorporated by reference to the Registrant's Registration Statement on Form S-4, Commission File No. 33-88322, previously filed with the Commission on January 6, 1995.)
*3.2	Amended and Restated Bylaws of James River Bankshares, Inc. (Incorporated by reference to the Registrant's Form 10-K/A, Commission File No. 0-26314, previously filed with the Commission on August 12, 1996).
*4	Form of Common Stock certificate of James River Bankshares, Inc. (Incorporated by reference to the Registrant's Registration Statement on Form S-4, Commission File No. 33-88322, previously filed with the Commission on January 6, 1995).
*10.1	Agreement between The Bank of Waverly and First Union National Bank, dated November 13, 1995, regarding branch acquisitions (Incorporated by reference to the Registrant's Registration Statement on Form S-4, Commission File No. 33-99254, previously filed with the Commission on December 22, 1995).
*10.2	Employment Agreement between James River Bankshares, Inc. and Harold U. Blythe dated July 18, 1995 (Incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form S-4, Commission File No. 33-99254, previously filed with the Commission on December 22, 1995).
*10.3	Employment Agreement between James River Bankshares, Inc. and Glenn T. McCall dated July 18, 1995 (Incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form S-4, Commission File No. 33-99254, previously filed with the Commission on December 22, 1995).
*10.4	Employment Agreement between First Colonial Bank and James C. Stewart dated February 29, 1996 (Incorporated by reference to the Registrant's Form 10-K, Commission File No. 0-26314, previously filed with the Commission on April 15, 1996).
*10.5	Employment Agreement between Bank of Isle of Wight and Robert E. Spencer, Jr. dated February 29, 1996 (Incorporated by reference to the Registrant's Form 10-K, Commission File No. 0-26314, previously filed with the Commission on April 15, 1996).
*10.6	Employment Agreement between James River Bankshares, Inc. and Donald W. Fulton, Jr. dated January 1, 1998. (Incorporated by reference to the Registrant's Form 10-K, Commission File No. 0-26314, previously filed with the Commission on March 30, 1998.)
***10.7	Early Retirement Agreement dated March 05, 1999, between First Colonial Bank and James C. Stewart.
***13	Annual Report to security holders.
*21	List of Subsidiaries. (Incorporated by reference to the Registrant's Form 10-K, Commission File No. 0-26314, previously filed with the Commission on April 15, 1996.)
***23.1	Consent of Goodman & Company, L.L.P.
***24.1	Power of Attorney (appears on the signature page hereto)
***27.1	Financial Data Schedule

</TABLE>

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* (Not filed herewith. In accordance with Rule 12b-32 of the General Rules and Regulations under the Securities Exchange Act of 1934, the exhibit is incorporated by reference.)

*** Filed herewith.

AGREEMENT

This Agreement (hereinafter "Agreement") is made and entered into by and between First Colonial Bank (hereinafter referred to as the "Bank") and James C. Stewart (hereinafter referred to as "Employee").

R E C I T A T I O N S

A. Employee has served as President and Chief Executive Officer of the Bank since its formation in 1972. Under Employee's leadership, the Bank has expanded and prospered.

B. Employee has requested early retirement and the Bank has agreed to accept such retirement. C. In recognition of all of the Employee's efforts, and in order to effect a smooth transition, the parties are entering into this Agreement.

A G R E E M E N T

In consideration of the mutual covenants contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Employee agree as follows:

1. Employee's last day of employment with the Bank and service as a director of the Bank, and service as a director of the Bank's parent, James River Bankshares, Inc. ("JRB"), and all subsidiaries of the Bank and JRB shall be May 26, 1999. Employee will receive paid vacation from April 5, 1999 through May 26, 1999.

2. As consideration for this Agreement, after May 26, 1999, Employee will receive payments other than those which would have been due under his Employment Agreement dated February 28, 1997. The Bank will pay Employee, over 24 consecutive, semi-monthly pay periods, an amount totaling $140,225 ($5,842.71 per pay period), less applicable withholding required by law at the rate(s) required by law. The first payment shall be made on the Bank's first payday in June 1999.

3. Employee understands and agrees that coverage under all Bank group insurance plans ends on his last day of active employment. Employee has indicated that he wishes to continue medical and/or dental coverage pursuant to COBRA. To do so, Employee must notify Bank within 60 days of receiving notice of COBRA eligibility. All premiums are payable wholly by Employee. Upon expiration of Employee's COBRA eligibility, he shall be eligible to continue in JRB's group health insurance plan, wholly at his own expense, for so long as such plan or any comparable plan is offered or until his death, whichever first occurs.

4. Employee will receive deferred compensation pursuant to the Supplemental Income Agreement dated November 1, 1988 (the "Supplemental Income Agreement"), commencing on June 1, 1999. The amount of such compensation shall be $40,723.37 per year payable in equal monthly payments of $3,393.62 for the period provided in the Supplemental Income Agreement.

5. On or before May 26, 1999, Employee may purchase the car currently provided to him by the Bank at a price equal to $10,000.

6. Pursuant to the terms of the Bank's written option plan and options previously granted to Employee, Employee has 60 days from May 26, 1999, to exercise all vested stock options. Failure to exercise these options within this time period will result in termination of any unexercised stock options. Employee may pay for such options in JRB stock at its Fair Market Value on the date Employee exercises the options. The term "Fair Market Value" shall have the same meaning ascribed to it in the JRB 1996 Employee Stock Option Plan, which is "the average of the last price of the common stock of JRB on the NASDAQ National Market for the 10 consecutive trading days immediately preceding the date in question."

7. JRB will provide Employee with coverage under JRB's directors' and officers' liability insurance policy in Employee's capacity as a former director of JRB and former director and officer of the Bank and any of the Bank's or JRB's affiliated or related companies to the same extent that JRB provides such insurance for its existing and former directors and officers of JRB and its subsidiary banks.

8. Employee agrees and affirms that as long as he is receiving payments under this Agreement, he shall be bound by the non-competition restrictions contained in Sections 7.2 and 7.3 of his Employment Agreement dated February 28, 1997 ("Employment Agreement"), which restrictions shall remain in full force and effect but be applied to payments called for hereunder. Violation of the non-competition restrictions will result in forfeiture of all payments under this Agreement. Employee further agrees and affirms that he will continue to be bound by the nondisclosure provisions of Section 12 of the Employment Agreement. Sections 7.2, 7.3 and 12 of the Employment Agreement are hereby incorporated by reference and shall remain in full force and effect.

9. Employee agrees to relocate his self-directed IRA to another financial institution by March 15, 1999.

10. (a) Each party hereto agrees to defend, indemnify and hold the other party harmless from and against any and all damages, penalties, costs (including reasonable attorneys' fees) or any other amount arising out of or in connection with (i) any material breach of this Agreement; and (ii) any claim by a nonparty hereto arising out of or related to a claim against either party hereto.

(b) Upon becoming aware of any claim, the party claiming indemnification (the "Indemnified Party") shall give the other party (the "Indemnifying Party") prompt notice of such claim setting forth all essential facts then known to the Indemnified Party in connection therewith. After the Indemnified Party has given the Indemnifying Party notice of a claim, the Indemnified Party and the Indemnifying Party shall thereafter attempt in good faith for a period of not less than 15 days to agree upon whether and to what extent the Indemnified Party is entitled to be indemnified under this Section 10. If the Indemnified Party and Indemnifying Party cannot so agree within said period, the Indemnified Party may thereafter commence litigation and/or take any other action to protect his or its interests.

(c) Defense of Third-Party Claims.

(i) The Indemnifying Party shall have the right to control the handling and defense, at his or its expense, and with counsel and representatives selected by he or it that are reasonably acceptable to the Indemnified Party, of any third-party claim for which he or it may be liable for indemnification, and the Indemnifying Party shall have the right to compromise or settle said third-party claim as he or it deems advisable with the prior consent of the Indemnified Party, which consent shall not be unreasonably withheld. The Indemnified Party shall have the right to participate in, but not to control, the handling and defense of any such third-party claim, at his or its expense, and with counsel and representatives selected by him or it.

(ii) If any proposed compromise or settlement for any third party claim has been accepted by such third party and involves solely money damages for a sum certain, payable in cash, and such settlement is objected to by the Indemnified Party, the Indemnifying Party shall not consummate said settlement; provided that the Indemnifying Party shall be fully relieved of and released from all liability for indemnification or otherwise with respect thereto by tendering to the Indemnified Party the amount of such proposed settlement, and the Indemnified Party shall assume all responsibility for said third-party claim.

(iii) Notwithstanding anything set forth herein to the contrary, the Indemnified Party shall not be required to refrain from paying any third party claim which has matured by a court judgment or decree that has become final.

11. Employee shall not be entitled to any compensation or benefits other than those described in the above paragraphs.

12. This Agreement constitutes the entire agreement between the parties pertaining to the matters with which it deals, and, except as set forth expressly herein, supersedes all prior agreements pertaining to those matters. This Agreement may not be altered or modified in any respect except by a writing duly executed by the parties to be bound.

13. The parties represent and warrant that Bank has advised Employee in writing to consult an attorney, and Employee has consulted an attorney before signing this Agreement.

14. If any clause or provision of this Agreement is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Agreement shall not be affected thereby, and in lieu of each clause or provision of this Agreement which is illegal, invalid, or unenforceable, there shall be added, as part of this Agreement, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provisions as may be possible and as may be legal, valid and enforceable.

15. This Agreement (including, without limitation, the non-competition

and indemnity provisions) shall be binding upon and will inure to the benefit of any successor or assigns of Bank, JRB and/or any affiliated or related company.

16. This Agreement shall be governed by and construed in accordance with the laws of Virginia.

3/4/99	/s/ James C. Stewart
Date	James C. Stewart
	FIRST COLONIAL BANK
3/5/99	By /s/ Ben P. Kanak
Date	Ben P. Kanak Chairman of the Board

<TABLE>
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Financial Highlights

(Dollars in thousands, except per share data)		1998	1997	Percent Change
<S>	<C>	<C>	<C>	<C>
Earnings	Net Interest Income	$ 15,929	$ 15,410	3.37%
	Net Income	4,309	3,805	13.25
Per Share	Net Income			
	Basic	$ 1.16	$ 1.04	11.54%
	Diluted	1.14	1.02	11.76
	Dividends	0.42	0.37	13.51
	Book Value at Period End	11.74	11.00	6.73
At Year End	Loans, Net	$ 275,491	$ 260,476	5.76%
	Securities	89,017	83,025	7.22
	Total Earning Assets	391,175	364,060	7.45
	Total Assets	419,820	390,076	7.63
	Total Deposits	372,772	347,573	7.25
	Shareholders' Equity	43,703	40,384	8.22
Ratios	Return on Average Assets	1.06%	0.99%	
	Return on Average Equity	10.18	9.82	
	Allowance for Loan Losses to Loans, Net of Unearned Income	1.37	1.31	
	Leverage Capital Ratio	9.84	9.68	

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Management's Discussion & Analysis of
Financial Condition & Results of Operations

The following discussion is intended to assist readers in understanding and evaluating the financial condition and results of operations of James River Bankshares, Inc. ("James River" or the "Company") and its subsidiaries for the periods presented. In addition to historical information, the following discussion, as well as certain information appearing elsewhere in this report, contains forward looking statements that are subject to risks and uncertainties that could cause the Company's future results to differ materially from those anticipated in such forward looking statements. These forward looking statements include, but are not limited to, statements regarding management's goals to improve profitability, make strategic acquisitions, prepare the Company for Year 2000, and other future plans, expectations, or goals. Risks and uncertainties that may affect the financial condition and results of operations of the Company include, but are not limited to, general economic and business conditions, competition from banks and other financial service providers, new financial products and services, risks inherent in making loans including repayment risks and changing collateral values, changing trends in customer profiles, technological changes, changes in laws and regulations applicable to James River and its subsidiaries, and risk related to Year 2000, including the risks associated with vendors and their suppliers and risks from customers. Although James River believes that its expectations with respect to any forward looking statements are based upon reasonable assumptions within the limits of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from any future results that may be expressed or implied by forward looking statements.

EARNINGS PERFORMANCE

James River's net income increased 13% in 1998 to $4.3 million. In 1997, net income was $3.8 million. Diluted net income per share increased 12% in 1998 to $1.14 from $1.02 in 1997. A 3% increase in net interest income and a 46% increase in non-interest income contributed to the higher net income in 1998. Partially offsetting these positive factors was a 6% increase in non-interest expense in 1998.

Higher net income in 1998 resulted in improved profitability ratios. The return on average assets increased in 1998 to 1.06% from .99% in 1997. The return on average shareholders' equity rose to 10.18% in 1998 from 9.82% in 1997. In addition, the Company's efficiency ratio showed improvement, declining to 65.18% in 1998 from 67.18% in 1997. A decline in the effiency ratio is considered positive as this ratio measures operating expenses as a percent of income (tax-equivalent net interest income plus non-interest income).

While encouraged by the progress demonstrated in 1998 in these measures of profitability, management recognizes the need for further improvement. Growth initiatives, such as the formation of a new mortgage company and the addition of four new branch offices in 1998, are anticipated to contribute to long-term future profitability, although no assurance can be given in this regard. Because of start-up costs and initial operating expenses, these initiatives had a negative effect on profitability in the fourth quarter of 1998 and are expected to have a similar effect during a portion of 1999.

Net income in 1997 of $3.8 million represented a 57% increase over 1996 net income of $2.4 million. Diluted net income per share was $1.02 in 1997 compared with $.65 in 1996. The increase in net income in 1997 was attributable partially to $1.3 million of non-recurring expense in 1996 associated with the acquisition of two bank subsidiaries and a one-time assessment by the Federal Deposit Insurance Corporation. In addition, in 1996 the Company incurred expense related to the opening of two new branch offices, the acquisition of three branches from another financial institution, the formation of a new non-bank operations support subsidiary, and the conversion of three bank subsidiaries to a new data processing system. Excluding non-recurring expense from 1996, net income improved 11% in 1997.

NET INTEREST INCOME

Net interest income is the difference between interest income and interest expense and represents the Company's gross profit margin. In 1998, net interest income increased 3% to $15.9 million from $15.4 million in 1997. Both interest income and interest expense increased 4% in 1998 over 1997. The increases in interest income and expense and net interest income were attributable to growth in earning assets and interest bearing liabilities.

The net interest margin represents tax-equivalent net interest income divided by average earning assets and reflects the effective rate earned by the Company

on its average earning assets. For comparative purposes, the income from tax-exempt securities and loans is adjusted to a tax-equivalent basis, which results in presenting such income on a comparable basis with fully taxable income. In 1998, the Company's net interest margin decreased to 4.38% from 4.46% in 1997. Yields on earning assets declined to 8.11% in 1998 from 8.24% in 1997, while rates paid on interest-bearing liabilities decreased to 4.66% in 1998 from 4.67% in 1997. Thus, the decline in market interest rates, particularly in the second half of 1998, had a stronger influence on the rates earned on loans and other earning assets than on deposits and other interest-bearing liabilities.

In 1997, net interest income increased 13% to $15.4 million from $13.7 million in 1996. Interest income grew 9% in 1997, while interest expense increased only 5%. The increase in interest income was attributable partially to an 8% increase in the loan portfolio.

The net interest margin widened in 1997 to 4.46% from 4.24% in 1996. The tax-equivalent yield on earning assets increased 17 basis points to 8.45% in 1997, while the cost of funds decreased 5 basis points to 4.67%. The two factors that had the strongest influence on the net interest margin were the change in the mix of earnings assets related to loan growth and a decrease in rates paid on deposits.

PROVISION FOR LOAN LOSSES

The provision for loan losses is the amount charged to expense that is intended to maintain an adequate allowance, or reserve, for loan losses in the future. The amount of the provision for loan losses in any given period is dependent upon a variety of factors including the size, growth, and composition of the loan portfolio, historical and expected loan loss experience, and an analysis of the quality of the loan portfolio and general economic conditions. In 1998, the Company increased its provision for loan losses to $507 thousand from $439 thousand in 1997. In 1996, the provision was $491 thousand. The higher provision in 1998 over 1997 reflected a 6% increase in the loan portfolio, changes in the composition and risk characteristics of the portfolio, concerns over the longevity of the economic expansion, and uncertainty over the possible effects of Year 2000 issues on the ability of borrowers to meet their obligations.

NON-INTEREST INCOME

Non-interest income includes service charges and other related income from services rendered by the Company. It also includes gains and losses realized from the sale of securities, loans, and fixed assets and other income items. In 1998, non-interest income increased 46% to $2.7 million from $1.9 million in 1997. Service charges on deposit accounts increased 27% to $1.4 million in 1998 from $1.1 million in 1997. Gains realized on the disposition of securities increased to $457 thousand in 1998 compared with $100 thousand in 1997. The higher gains in 1998 resulted principally from the sale of certain equity securities, which produced a gain of $439 thousand. In addition, other non-interest income in 1998 included $128 thousand related to mortgage servicing rights and $84 thousand from the sale of real estate.

In 1997, non-interest income increased 14% to $1.9 million over $1.7 million recorded in 1996. The increase was attributable primarily to an increase in certain customer charges and fees. In addition, income from the disposition of securities increased $59 thousand in 1997 over 1996.

NON-INTEREST EXPENSE

Non-interest expense represents the overhead expenses of the Company. In 1998, non-interest expense increased 6% to $12.3 million from $11.6 million in 1997. Salaries and employee benefits increased 7%, occupancy expense increased 15%, and other expense was 5% higher in 1998 compared with 1997. Equipment expense decreased 3% in 1998. Overhead expense increases in 1998 were affected by the formation of a mortgage company, the addition of four new branch offices, and the completion of the Company's new administrative building. These factors are expected to affect overhead expense and prior period comparisons in the first three quarters of 1999. Income generated by the mortgage company and the branches also will affect 1999 results of operations and prior period comparisons.

In 1997, non-interest expense increased $54 thousand, or .5%, to $11.6 million from $11.5 million in 1996. Salaries and employee benefits increased 19%, occupancy expense increased 7%, and equipment expense was 37% higher in 1997 compared with 1996. Substantially offsetting these increases was a 75% decrease in other expense in 1997. This decrease was attributable to certain non-recurring expense in 1996 as previously described related to acquisition expenses, a Federal Deposit Insurance Corporation special assessment, the addition and acquisition of branch offices, the start-up of an operations support subsidiary, and computer related conversion costs.

INCOME TAXES

Income tax expense in 1998 was $1.6 million, or 7% above $1.5 million recorded in 1997. In 1996, income tax expense was $908 thousand. The increases in expense

in 1998 and 1997 related primarily to higher taxable income. The effective tax rates in 1998, 1997, and 1996 were 27.03%, 28.20%, and 27.32% respectively.

FINANCIAL CONDITION

The Company's financial condition is measured in terms of its asset and liability composition, asset quality, capital resources, and liquidity. At December 31, 1998, total assets were $420 million, or 8% higher than the year earlier total of $390 million. Average assets in 1998 of $405 million were 5% above the year earlier average of $386 million. The addition of four branch offices contributed to the growth of assets at year-end 1998.

LOANS

Loans, net of unearned income, at year-end 1998 totaled $276 million, or 5% above the year earlier total of $263 million. Loans averaged $273 million in 1998 and $259 million in 1997. Loan growth in 1998 was concentrated principally in real estate loans and construction loans.

INVESTMENTS

At December 31, 1998, investment securities totaled $89 million, or 7% above the year earlier total of $83 million at December 31, 1997. In 1998, however, investment securities averaged 7% lower than in 1997. The higher total at year-end 1998 resulted from balance sheet growth late in the year and the re-deployment of funds from short-term investments. In 1998, the portfolio produced a tax-equivalent yield of 6.7% compared with 6.8% in 1997. At year-end, 92.1% of all securities were rated "A" or better or were issued by the U.S. Government or its agencies.

DEPOSITS

Total deposits increased 7% to $373 million at year-end 1998 compared with $348 million one year earlier. Average deposits increased 4% in 1998 to $358 million compared with the 1997 average of $343 million. Interest checking, which was $21 million higher, accounted for the greatest portion of the year-end increase.

ASSET QUALITY

The Company strives to maintain asset quality by emphasizing strong credit underwriting and by monitoring the portfolio's repayment performance, among other measures. The Company maintains an allowance for loan losses that it believes is sufficient to absorb losses that might be incurred. In determining the adequacy of the allowance for loan losses, management considers the size and composition of the loan portfolio, historical loss experience, economic conditions, the value and adequacy of collateral and guarantors, and the current level of the allowance. In addition, consideration is given to potential losses associated with non-accrual loans, impaired loans, and delinquent loans. Management believes that the allowance for loan losses is maintained at a sufficient level to provide for potential losses in the portfolio.

At December 31, 1998, the allowance totaled $3.8 million, or 1.37% of loans. The allowance totaled $3.5 million, or 1.31% of loans at the end of 1997. Net loans charged off were $137 thousand in 1998 and $158 thousand in 1997. The ratio of net charged off loans to average loans was .05% in 1998, .06% in 1997, and .09% in 1996. Non-performing loans as a percent of total loans at year-end were .14%, .34%, and .12% in 1998, 1997, and 1996, respectively. Additional information concerning impaired loans and the allowance for loan losses is contained in Note 4 of the Notes to Consolidated Financial Statements.

SHAREHOLDERS' EQUITY AND CAPITAL RESOURCES

Shareholders' equity at year-end 1998 was $43.7 million, or 8% higher than the year earlier total of $40.4 million. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, shareholders' equity includes an adjustment for the increase in the market value of securities available for sale, net of deferred taxes. The amounts were $804 thousand and $786 thousand at year-end 1998 and 1997, respectively. In 1998, shareholders' equity averaged $42.3 million, which was 9% above the 1997 average of $38.7 million.

Federal banking law sets forth certain regulatory capital requirements that apply to the Company and its banking subsidiaries. Within the framework established by this law, the Company and its banking subsidiaries qualify for

the classification "well capitalized," which is the highest regulatory classification. At year-end 1998, the Company's regulatory capital ratios were as follows: Tier 1 Capital to Risk Weighted Assets - 15.6%; Total Capital to Risk Weighted Assets - 16.9%; and Tier 1 Capital to Quarterly Average Assets (leverage ratio) - 9.8%. Additional information concerning regulatory capital requirements is contained in Note 8 of the Notes to Consolidated Financial Statements. At December 31, 1998 and 1997, the Company's equity to asset ratio was 10.4%.

The Company's common stock is traded on the NASDAQ Stock Market's National Market System under the trading symbol JRBK. At December 31, 1998, the book value of a share of common stock was $11.74 compared with the year earlier book value of $11.00. Cash dividends paid on the Company's common stock totaled $1.6 million in 1998 and $1.4 million in 1997. In the fourth quarter of 1998, the Company's board of directors increased the quarterly cash dividend 20% to $.12 per share from $.10 per share. On an annualized basis, the cash dividend following the increase was $.48 per share.

LIQUIDITY AND MARKET RISK

Liquidity in a banking company measures the ability of the company to generate sufficient cash to meet its daily obligations, pay dividends to shareholders, and to provide funds for customer's demands for loans and deposit withdrawals without impairing profitability. To meet these needs, the Company maintains cash reserves and readily marketable investment securities in addition to regular fund flows provided from loan repayments and maturing securities. Funds also can be obtained through increasing deposits or short-term borrowings and through the banks' borrowing privileges at the Federal Reserve and the Federal Home Loan Bank. In addition, the Company has a $1 million line of credit available. At year-end 1998, the Company's federal funds sold and interest-bearing deposits totaled $22.8 million, and securities with maturities of one year or less totaled $6.0 million. The Company has no long term debt. Management believes that its liquidity is adequate to meet its projected needs.

A related concern of liquidity management is interest rate sensitivity. Changes in interest rates may affect funding requirements, the liquidity of certain assets, and, potentially, the income stream of the Company. The Company currently uses traditional asset and liability management techniques to manage its interest rate risk. As such, it monitors the difference, or gap, between the volume of interest sensitive assets and liabilities that will mature or reprice over various time intervals. At December 31, 1998, the Company had $80.7 million more in liabilities than assets that mature or reprice within three months or less, and, therefore, was in a liability sensitive position. In a period of declining interest rates, this position could have a positive impact on the Company's earnings. Conversely, in a rising rate environment a liability sensitive position could adversely affect earnings. In either scenario, certain repricing decisions are within management's discretion and can influence actual results.

Another method for measuring interest rate sensitivity is to analyze the potential gain or loss in fair values of interest rate sensitive instruments. The Company's analysis assumes a hypothetical interest rate shock of an instantaneous change in interest rates of 200 basis points up and down. A present value computation is used in determining the effect of the hypothetical interest rate changes on the fair value of interest sensitive assets and liabilities. Computations of prospective effects of these hypothetical interest rate changes are based on many assumptions, including relative levels of market interest rates, loan prepayments, and deposit decay. The results of the analyses should not be relied upon as indicative of actual results. The computations do not contemplate actions that could be undertaken by management in response to changes in interest rates. In addition, certain shortcomings, which could affect the actual values of interest sensitive assets and liabilities, are inherent in this method of analysis. Given these and other limitations of the analysis, if interest rates increased or decreased 200 basis points instantaneously, the net fair value of interest sensitive instruments would decrease $5.4 million and increase $5.2 million, respectively. The above analysis uses standard present value methodology and makes assumptions regarding balance sheet growth and mix, market interest rate levels, and pricing spreads based on instrument type.

The Company is not engaged in investment strategies involving derivative financial instruments. Asset and liability management is conducted without the

use of forward-based contracts, options, swap agreements, or other synthetic financial instruments.

BUSINESS COMBINATIONS

On March 1, 1996, the Company acquired First Colonial Bank (previously First Colonial Bank, FSB) and James River Bank/Colonial (previously Bank of Isle of Wight) in separate transactions. The Company issued a total of 914,941 shares of its common stock to the shareholders of the two companies. At March 1 1996, First Colonial Bank had total assets of approximately $137 million and shareholders' equity of approximately $8.3 million. At March 1, 1996, James River Bank/Colonial had total assets of approximately $33 million and shareholders' equity of approximately $3.3 million. Both acquisitions were accounted for as pooling of interests transactions and are explained more fully in Note 12 of the Notes to Consolidated Financial Statements.

On February 17, 1999, the Company entered into a definitive merger agreement with State Bank of Remington, Inc. ("State Bank"). Under the terms of the agreement, State Bank would become a wholly owned subsidiary of the Company. The merger agreement provides for the Comany to exchange 2.9 shares of its common stock for each of the approximately 291,000 shares of State Bank common stock. Among other conditions, the transaction is subject to shareholder and regulatory approval. The merger is expected to qualify as a tax-free exchange and to be accounted for as a pooling of interests.

ACCOUNTING RULE CHANGES

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative information embedded in other contracts (collectively referred to as derivatives), and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for all fiscal quarters or fiscal years beginning after June 15, 1999. Management will assess the impact, if any, on the Company's financial statements.

The American Institute of Certified Public Accountants ("AICPA") issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-up Activities," in April 1998. The SOP requires such costs to be expensed as incurred, instead of being capitalized and amortized. It applies to start-up activities and costs of organization of both development stage and established operating entities, and it changes existing practice for some industries. The SOP broadly defines start-up activities as those one-time activities that relate to the opening of a new facility, introduction of a new product or service, doing business in a new territory, initiating a new process in an existing facility, doing business with a new class of customer or beneficiary, or commencing some new operation. The SOP is effective for financial statements for fiscal years beginning after December 15, 1998. It is not expected to materially affect the Company's financial condition or results of operations.

The AICPA issued SOP 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use." This SOP is effective for financial statements for fiscal years beginning after December 15, 1998. The SOP requires entities to capitalize certain internal-use software costs once certain criteria are met. Generally, internal costs with respect to software configuration and interface, coding, installation to hardware, testing (including parallel processing), and data conversion costs allowing access of old data by new systems should be capitalized. All other data conversion costs, training, application maintenance, and ongoing support activities should be expensed. The Company will adopt this SOP in 1999 and does not expect it to have a material effect on the Company's financial condition or results of operations.

YEAR 2000 PROJECT

STATE OF READINESS

In its evaluation of Year 2000 readiness, James River Bankshares and its subsidiaries have examined their internal information technology systems, environmental systems, and other non-information technology products and date sensitive issues. In addition James River has communicated with suppliers and significant customers to determine their state of readiness.

James River's original Year 2000 Plan, which was approved in the fall of 1997 by the Board of Directors, detailed the phases involved in the management of the

year 2000 project, and, with some modifications, James River is on target with the original dates projected for each phase of the project. The Company's management, its board of directors, and the management and boards of the Company's subsidiary banks receive updates at least quarterly, and more frequently as needed, regarding progress and activities related to the Year 2000 Plan. The phases and timetable for completion are described below.

- Awareness Phase-Completed third quarter 1997;
- Assessment Phase-Completed first quarter 1998;
- Renovation Phase-No significant renovation to existing systems expected;

- Validation Phase-Testing currently on-going, to be completed by first quarter 1999; and
- Implementation Phase-Completion no later than first quarter 1999.

In the third quarter of 1998, James River, entered into an agreement with SBS Data Services, Inc. under which SBS will perform the data processing function for James River. The decision to outsource this function was a business decision and was not driven by Year 2000 issues or concerns about our ability to process in the new century. SBS provides data processing services to many other banking companies and is subject to examination by Federal banking authorities. SBS utilizes the same computer hardware and software used by James River and has provided the Company with Year 2000 compliance certifications. The conversion was completed in January 1999. Because of the timing of the conversion, testing of the mainframe applications was delayed beyond year-end 1998 as scheduled. James River and SBS have established a test plan in accordance with Federal Financial Institutions Examination Council ("FFIEC") guidelines. The tests are expected to be completed during the first quarter of 1999.

In the validation phase currently in progress, testing has been performed or is scheduled to be performed on the hardware and software for "mission critical" systems and for all other software applications and hardware as well. Also, testing is scheduled to be performed or has been performed on all environmental systems, including security systems, heating and air conditioning units, and vault timers, among others. Testing has been completed on all personal computers and software applications. Such software testing included software for processing new deposit accounts and loans, as well as merchant credit card terminals. The testing did not result in any determinable Year 2000 difficulties. A review of vault mechanisms also has been completed. The review determined that vault timers do not have embedded chips and are not dependent on electrical or other sources of power. Consequently, no difficulty is expected with the vaults. Reviews of security systems reveal that such systems have battery back-up capabilities in the event of power failure. Battery testing will be undertaken near year-end. In addition, ATM hardware is being evaluated for Year 2000 readiness. Because of the age of some of the equipment, vendors have been contacted to determine readiness.

Several significant outside systems that James River is dependent upon are provided by the Federal Reserve Bank of Richmond. Testing of these systems was delayed as the result of an internal reorganization of the accounting and operations functions to provide adequate testing of the systems that will be in place at Year 2000. Testing on these applications began in the last week of January 1999 and continued through mid-February. The testing revealed no difficulties with processing in Year 2000.

In addition, James River relies upon outside sources for investment securities accounting and custodial services and stock transfer services. In each case, James River has been provided with information regarding Year 2000 readiness and plans testing of these services in the first quarter of 1999. James River also relies upon SBS for disaster recovery services for its data processing at a back-up facility. James River plans to conduct its own testing of the disaster recovery capabilities in the first quarter of 1999.

In 1998, James River's subsidiary banks completed an assessment of large commercial loan customers for compliance with Year 2000 issues, and are preparing a second written communication to all customers regarding the status of the Company's Year 2000 efforts. James River is committed to customer awareness for Year 2000. The Company's newsletter, as well as training sessions, are utilized to keep employees informed. In addition, the Company initiated a communications program directed at employees and customers that will provide written information regarding Year 2000 issues and Company contact information at each of the Company's locations.

James River's efforts to address Year 2000 issues are subject to guidelines established by the FFIEC. Consequently, the Company's plan and its progress in implementing that plan are subject to periodic examination by the Federal Reserve Bank of Richmond.

THE COSTS TO ADDRESS THE COMPANY'S
YEAR 2000 ISSUES

At this stage, James River has incurred no material incremental costs related to Year 2000. Research still supports the belief that any costs for meeting the Year 2000 requirements will be insignificant. The Company's projections for this project stand at $50,000, which is unchanged from the Company's previous estimate. In addition, a non-cash charge of approximately $61,000 will be incurred in 1999 to maintain back-up computer capabilities.

THE RISKS OF THE COMPANY'S
YEAR 2000 ISSUES

James River is subject to a variety of Year 2000 risks for which there are no means to measure, test, or control. One such risk is that suppliers or vendors upon whom James River depends will not be Year 2000 ready. James River also is subject to difficulties experienced by local governments and businesses and those on a state or national level that could have ramifications upon the Company and/or that of significant customers or suppliers.

Another significant risk to the Company for Year 2000 is the failure of one or more business entities that have considerable loan volume with one or more of our subsidiary banks. To assess that risk, James River recently completed a survey of its large commercial loan customers to determine their ability to continue successfully past the century date change. Preliminary results of this process showed no significant risks. James River will continue to analyze those customers and their efforts to comply with the requirements of Year 2000 for their business systems. Loan agreements allow the subsidiary banks to monitor these businesses and their financial performance to ensure their on-going preparedness for Year 2000.

THE COMPANY'S CONTINGENCY PLANS

James River continues to evaluate contingency plans with respect to the Year 2000. The manual processing of teller work as well as other transactions such as loan payments, general ledger entries, etc. will be the focus of the Company's contingency plan. In 1999, the Company will evaluate the need for training to implement this aspect of the contingency plan. In addition, the disaster recovery plans of each subsidiary will be reviewed in 1999 in terms of Year 2000 issues. Also, in conjunction with its decision to enter into the data processing agreement with SBS, James River decided to retain and maintain its current mainframe computer as part of its contingency back-up plan.

Another issue that the subsidiary banks will address is the adequacy of liquidity and related security concerns. Through various media, the public has been cautioned to maintain above normal levels of cash. To meet expected cash requirements and other liquidity needs, the subsidiary banks plan to establish borrowing privileges at the Federal Reserve and the Federal Home Loan Bank. In conjunction with the anticipated above normal cash needs, the Company and the subsidiary banks are reviewing insurance coverage and security measures that may be necessary.

Five Year Financial Summary

<TABLE>
<CAPTION>
(Dollars in thousands, except per share data)

Years ended December 31,	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA					
Interest Income	$ 30,641	$ 29,607	$ 27,224	$ 22,797	$ 20,605
Interest Expense	14,712	14,197	13,560	11,137	9,714
Net Interest Income	15,929	15,410	13,664	11,660	10,891
Provision for Loan Losses	507	439	491	342	593
Net Interest Income after Provision for Loan Losses	15,422	14,971	13,173	11,318	10,298
Non-Interest Income	2,745	1,885	1,655	1,240	1,808
Non-Interest Expense	12,262	11,557	11,503	8,319	7,538
Income Before Income Taxes	5,905	5,299	3,325	4,239	4,568
Income Taxes	1,596	1,494	908	1,146	1,066
Net Income	$ 4,309	$ 3,805	$ 2,417	$ 3,093	$ 3,502

PER SHARE DATA*

Net Income - Basic	$ 1.16	$ 1.04	$ 0.66	$ 0.85	$ 1.01
Net Income - Diluted	1.14	1.02	0.65	0.84	1.00
Cash Dividends	0.42	0.37	0.35	0.29	0.25
Book Value at Period End	11.74	11.00	10.20	10.04	9.02
Tangible Book Value at Period End	11.53	10.78	9.45	10.00	8.97
BALANCE SHEET DATA					
Total Assets	$ 419,820	$ 390,076	$ 381,608	$ 326,280	$ 306,148
Loans, Net	275,491	260,476	240,913	206,516	174,983
Securities	89,017	83,025	103,486	85,974	97,003
Deposits	372,772	347,573	342,332	287,364	270,906
Shareholders' Equity	43,703	40,384	37,603	36,885	32,473
PERFORMANCE RATIOS					
Return on Average Assets	1.06%	0.99%	0.67%	1.01%	1.19%
Return on Average Shareholders' Equity	10.18	9.82	6.71	8.97	11.15
Efficiency Ratio	65.18	67.18	77.79	65.56	63.04
Net lnterest Margin	4.38	4.46	4.24	4.20	4.08
CREDIT QUALITY RATIOS					
Allowance for Loan Losses to Non-Performing Loans	981.28%	385.40%	1,091.41%	388.05%	165.60%
Allowance for Loan Losses to Non-Performing Assets	585.17	235.17	687.45	385.98	126.87
Allowance for Loan Losses to Year-End Loans, Net of Unearned Income	1.37	1.31	1.30	1.38	1.51
Net Charged-off Loans to Average Loans, Net of Unearned Income	0.05	0.06	0.09	0.06	0.09
CAPITAL AND LIQUIDITY RATIOS					
Leverage	9.84%	9.68%	9.68%	11.78%	11.38%
Risk Based:					
Tier 1 Capital	15.62	14.71	16.05	22.17	20.12
Total Capital	16.88	15.96	17.30	23.42	21.73
Average Loans to Average Deposits	76.30	75.43	71.02	71.48	65.20
Average Shares Outstanding*					
Basic	3,703,458	3,675,201	3,676,034	3,656,148	3,477,177
Diluted	3,789,155	3,733,214	3,737,057	3,702,564	3,488,631

</TABLE>

* Restated to reflect three-for-two stock split in the form of a stock dividend in November 1997.

Report of Independent Auditors

The Board of Directors and Shareholders
James River Bankshares, Inc.
Suffolk, Virginia

We have audited the accompanying consolidated balance sheets of James River Bankshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 James River Bankshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ GOODMAN & COMPANY, L.L.P.

GOODMAN&COMPANY, L.L.P.
Certified Public Accountants

131 Temple Lake Drive, Suite One
Colonial Heights, Virginia 23834
January 28, 1999, except for Notes 1 and 17,
as to which the date is February 17, 1999.

Consolidated Balance Sheets

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data) December 31,	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 14,268	$ 14,087
Interest bearing deposits with banks	12,031	2,720
Federal funds sold	10,809	14,382
Securities available-for-sale, at fair value	80,155	71,952
Securities held-to-maturity, at amortized cost (fair value approximates $9,090 and $11,244 at December 31, 1998 and 1997)	8,862	11,074
Loans, net of allowance for loan losses	271,892	259,687
Loans held for sale, net	3,599	789
Accrued interest receivable	2,970	2,939
Premises and equipment, net	10,137	7,480
Intangible assets, net	2,342	2,503
Other assets	2,755	2,463
	$ 419,820	$ 390,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
DEPOSITS:		
NON-INTEREST BEARING	$ 46,805	$ 46,490
INTEREST BEARING	325,967	301,083
TOTAL DEPOSITS	372,772	347,573
ACCRUED INTEREST PAYABLE	810	752
OTHER LIABILITIES	2,535	1,367
TOTAL LIABILITIES	376,117	349,692
SHAREHOLDERS' EQUITY		
PREFERRED STOCK, $5 PAR VALUE PER SHARE (2,000,000 SHARES AUTHORIZED; NONE ISSUED)	-	-
COMMON STOCK, $5 PAR VALUE PER SHARE (10,000,000 SHARES AUTHORIZED; 3,721,348 AND 3,672,557 SHARES ISSUED AND OUTSTANDING AT DECEMBER 31, 1998 AND 1997, RESPECTIVELY)	18,607	18,363
ADDITIONAL PAID-IN-CAPITAL	3,878	3,572
RETAINED EARNINGS	20,414	17,663
ACCUMULATED OTHER COMPREHENSIVE INCOME	804	786
TOTAL SHAREHOLDERS' EQUITY	43,703	40,384
	$ 419,820	$ 390,076

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

Consolidated Statements of Income

(Dollars in thousands, except per share data)

Years Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income			
Loans	$ 24,447	$ 23,473	$ 20,449
Investment securities:			
Taxable	3,888	4,414	4,980
Exempt from federal income taxes	1,197	1,184	1,285
Federal funds sold and other	1,109	536	510
Total interest income	30,641	29,607	27,224
Interest expense			
Deposits	14,665	14,157	13,531
Federal funds purchased and other	47	40	29
Total interest expense	14,712	14,197	13,560
Net interest income	15,929	15,410	13,664
Provision for loan losses	507	439	491
Net interest income after provision for loan losses	15,422	14,971	13,173
Non-interest income			
Service charges on deposit accounts	1,399	1,099	1,089
Other fees and commissions	478	482	362
Net realized gains on disposition of securities	457	100	41
Other income	411	204	163
Total non-interest income	2,745	1,885	1,655
Non-interest expense			
Salaries and employee benefits	6,673	6,232	5,254
Occupancy expense	871	756	704
Equipment	906	932	680
Other expense	3,812	3,637	4,865
Total non-interest expense	12,262	11,557	11,503
Income before income taxes	5,905	5,299	3,325
Provision for income taxes	1,596	1,494	908
Net income	$ 4,309	$ 3,805	$ 2,417
Net income per common share			
Basic	$ 1.16	$ 1.04	$ 0.66
Diluted	$ 1.14	$ 1.02	$ 0.65
Weighted average number of shares outstanding during the year			
Basic	3,703,458	3,675,201	3,676,034
Diluted	3,789,155	3,733,214	3,737,057

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands, except share data)
Years Ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

<S>	SHARES OF COMMON STOCK <C>	COMMON STOCK <C>	ADDITIONAL PAID-IN-CAPITAL <C>	RETAINED EARNINGS <C>	ACCUMULATED OTHER COMPREHENSIVE INCOME <C>	TOTAL <C>
Balance - December 31, 1995	2,448,693	$12,244	$ 3,447	$20,487	$ 707	$36,885
Comprehensive income:						
Net income	-	-	-	2,417	-	2,417
Change in unrealized gains and losses on securities available-for-sale, net of taxes	-	-	-	-	(445)	(445)
Transfer of held-to-maturity securities to available-for-sale, net of taxes, in conjunction with business combinations	-	-	-	-	(99)	(99)
Total comprehensive income	-	-	-	-	-	1,873
Common stock issued	9,257	46	74	1	-	121
Cash dividends declared ($0.35 per share)	-	-	-	(1,276)	-	(1,276)
Balance - December 31, 1996	2,457,950	12,290	3,521	21,629	163	37,603
Comprehensive income:						
Net income	-	-	-	3,805	-	3,805
Change in unrealized gains and losses on securities available-for-sale, net of taxes	-	-	-	-	623	623
Total comprehensive income	-	-	-	-	-	4,428
Common stock issued	1,699	9	27	-	-	36
ESOP termination	(18,352)	(92)	-	(281)	-	(373)
Stock options exercised	7,783	39	27	-	-	66
Cash paid in lieu of fractional shares	(209)	(1)	(3)	-	-	(4)
Cash dividends declared ($0.37 per share)	-	-	-	(1,372)	-	(1,372)
Stock split effected in the form of a stock dividend	1,223,686	6,118	-	(6,118)	-	-
Balance - December 31, 1997	3,672,557	18,363	3,572	17,663	786	40,384
Comprehensive income:						
Net income	-	-	-	4,309	-	4,309
Change in unrealized gains and losses on securites available-for-sale, net of taxes	-	-	-	-	18	18
Total comprehensive income	-	-	-	-	-	4,327
Common stock issued	1,681	9	26	-	-	35
Stock options exercised	47,110	235	280	-	-	515
Cash dividends declared ($0.42 per share)	-	-	-	(1,558)	-	(1,558)
Balance - December 31, 1998	3,721,348	$18,607	$ 3,878	$20,414	$ 804	$43,703

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

(In thousands) Years Ended December 31,	1998	1997	1996
Cash flows from operating activities			
Net income	$ 4,309	$ 3,805	$ 2,417
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	507	439	491
Depreciation and amortization	1,227	1,248	857
Gain on disposition of securities	(457)	(100)	(41)
Gain on sale of loans	(63)	(32)	(56)
Gain on sale of fixed assets	(84)	-	-
Changes in:			
Loans held for sale	(2,747)	435	291
Interest receivable	(31)	185	(346)
Other assets	(416)	65	(989)
Interest payable	58	140	193
Other liabilities	449	307	(552)
Net cash provided by operating activities	2,752	6,492	2,265
Cash flows from investing activities			
Proceeds from dispositions of available-for-sale securities	32,233	25,473	29,666
Purchase of available-for-sale securities	(39,962)	(5,136)	(49,341)
Redemption of held-to-maturity securities	2,211	1,391	2,631
Purchase of held-to-maturity securities	-	(255)	(1,235)
Net increase in loans	(12,808)	(20,841)	(35,123)
Purchase of property and equipment	(3,555)	(335)	(2,475)
Proceeds from sale of property and equipment	138	360	-
Net cash and cash equivalents received in acquisition of branches	-	-	30,484
Net cash provided by (used in) investing activities	(21,743)	657	(25,393)
Cash flows from financing activities			
Cash dividends paid	(1,558)	(1,372)	(1,276)
Net increase in deposits	25,199	5,241	20,633
Issuance of stock	550	102	126
Common stock repurchased	-	(373)	-
Purchase of fractional shares	-	(4)	(5)
Proceeds from short-term borrowings	719	-	-
Net cash provided by financing activities	24,910	3,594	19,478
Net increase (decrease) in cash and cash equivalents	5,919	10,743	(3,650)
Cash and cash equivalents - beginning	31,189	20,446	24,096
Cash and cash equivalents - ending	$ 37,108	$ 31,189	$ 20,446
Cash paid during the year for:			
Interest	$ 14,745	$ 14,057	$ 13,366
Income taxes	$ 1,837	$ 1,426	$ 1,449

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

James River Bankshares, Inc. ("the Company") is a Virginia multi-bank holding company headquartered in Suffolk, Virginia that commenced operations June 1, 1995. The Company owns James River Bank, Waverly, Virginia; Bank of Suffolk, Suffolk, Virginia; First Colonial Bank, Hopewell, Virginia; James River Bank/Colonial, Smithfield, Virginia (collectively the "Banking Subsidiaries"); and Family Finance Corporation, a consumer loan company, Family Finance of Virginia, Inc., a consumer equity lender, and James River Support, Inc., an EDP operation center. In addition, James River Bank owns Mortgage Company of James River, Inc., which is a residential mortgage loan company formed in the fourth quarter of 1998. The Banking Subsidiaries operate twenty-four banking offices in southeastern Virginia. The Company's primary source of revenue is providing loans to customers who are predominantly small and middle-market businesses and individuals.

PRINCIPLES OF CONSOLIDATION AND
BASIS OF PRESENTATION

The consolidated financial statements include the accounts of James River Bankshares, Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in the consolidation. The consolidation has been prepared using the pooling of interests method of accounting. All information included in the financial statements has been combined as if mergers had occurred at the earliest date presented. Certain previously reported amounts have been reclassified to conform to current presentations.

POOLING OF INTERESTS TRANSACTIONS

Effective March 1, 1996, in two separate transactions, the Company merged with First Colonial Bank, FSB, a federal-chartered savings bank, and Bank of Isle of Wight (renamed James River Bank/Colonial in 1998), a Virginia state-chartered bank. Each of the 1,244,895 outstanding shares of First Colonial Bank, FSB common stock was converted to .4816 shares of the Company's stock, and each of the 78,850 outstanding shares of Bank of Isle of Wight common stock was converted to four shares of the Company's stock.

CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions, cash and due from banks, interest bearing deposits with banks, and Federal funds sold.

The Company is required to maintain reserves with the Federal Reserve Bank. The aggregate daily average reserves required for the final reporting period in the years ended December 31, 1998 and 1997 were $1,436,000 and $1,153,000, respectively.

INVESTMENT SECURITIES

Investment securities are classified into three categories: held-to-maturity, available-for-sale and trading. Securities that management has both the intent and ability to hold to maturity are classified as securities held-to-maturity and are carried at cost, adjusted for amortization of premium or accretion of discount using the interest method. Securities that may be sold prior to maturity for asset/liability management purposes, or that may be sold in response to changes in interest rates, changes in prepayment risk, to increase regulatory capital or other similar factors are classified as securities available-for-sale and carried at fair value with any adjustments to fair value, after tax, reported as a separate component of shareholders' equity. The Company has no trading securities. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary, if any, are included in earnings as realized losses.

Interest and dividends on securities, including the amortization of premiums and the accretion of discounts, are reported as interest and dividends on securities using the interest method. Gains and losses on the sale of securities are recorded on the trade date and are calculated using the specific identification method.

LOANS HELD FOR SALE

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income.

LOANS

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

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as

doubtful or is partially charged off, the loan is classified as non-accrual. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment.

While a loan is classified as non-accrual and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal generally are applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that is sufficient to absorb probable credit losses. Management's evaluation of the adequacy of the allowance is based on a review of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of collateral, and an analysis of the levels and trends of delinquencies, charge-offs, and the risk ratings of the various loan categories. Such factors as the level and trend of interest rates and the condition of the national and local economies also are considered. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

A loan is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is based generally on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Increases and decreases in the allowance due to changes in the measurement of impaired loans, if applicable, are included in the provision for loan losses. Loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

PREMISES AND EQUIPMENT

Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method. Net gains and losses on disposal or retirement of premises and equipment are included in other income.

REAL ESTATE OWNED

Real estate acquired in settlement of loans is initially recorded at estimated fair value at the date of foreclosure. Subsequent to foreclosure, the carrying value of real estate owned is reduced when it exceeds fair value minus estimated costs to sell. Costs relating to improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred.

Other real estate acquired and held for sale is stated at the lower of cost or net realizable value. Valuations are periodically performed by management, and an allowance for losses is established by a charge to income if the carrying value of a property exceeds its estimated net realizable value.

INTANGIBLE ASSETS

Intangible assets are amortized using accelerated methods over their estimated periods of benefit.

INCOME TAXES

The Company files a consolidated tax return. The provision for income taxes reflects tax expense incurred as a consolidated group. The expense is allocated among the members of the consolidated group in accordance with an intercompany agreement for tax expense. Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investment securities, deferred loan fees, allowance for loan losses, accumulated depreciation and deferred compensation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled, and the deferred tax asset or liability created by the difference in market value and carrying value of available-for-sale securities.

EARNINGS PER COMMON SHARE

The Company adopted SFAS No. 128, "Earnings per Share," on December 31, 1997. This Statement establishes standards for computing and presenting earnings per share (EPS). This Statement supersedes standards previously set in APB Opinion

No. 15, "Earnings per Share." The Statement requires dual presentation of basic and diluted EPS on the face of the income statement, and it requires a reconciliation of the numerator and denominator of basic EPS with the numerator and denominator of the diluted EPS computation.

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

This Statement is effective for financial statements issued for periods ending after December 15, 1997. In accordance with the requirements of the Statement, all prior period EPS data have been restated to reflect the change in reporting requirements.

On September 25, 1997, the Board of Directors declared a 3-for-2 stock split effected in the form of a 50% stock dividend, which was distributed on November 7, 1997. Accordingly, the average number of shares outstanding and per share amounts for earnings, dividends declared, and book value have been restated for all periods presented to give effect to the split.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions and other factors.

COMPREHENSIVE INCOME

On January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income is displayed in the Company's Consolidated Statements of Changes in Shareholders' Equity. The Company's comprehensive income includes net income and net unrealized gains or losses on available-for-sale securities. The adoption of SFAS No. 130 had no effect on the Company's net income or shareholders' equity.

SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about a company's operating segments. For calendar year companies, this reporting is first required in 1998. Although financial condition and results of operations for each subsidiary bank are continually monitored, management believes that its Banking Subsidiaries have products, services, and economic prospects so similiar that segment information is not currently relevant.

Notes to Consolidated Financial Statements

NOTE 2 - INVESTMENT SECURITIES

The carrying amount of securities and their approximate fair values at December 31 were as follows:

<TABLE>
<CAPTION>

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Available-for-Sale Securities:				
December 31, 1998				
U.S. Government and agency securities	$49,738	$ 566	$ 93	$50,211
State and municipal securities	25,543	716	8	26,251
Other debt securities	609	15	-	624
Equity securities	3,047	26	4	3,069
	$78,937	$ 1,323	$ 105	$80,155
December 31, 1997				
U.S. Government and agency securities	$43,410	$ 330	$ 205	$43,535
State and municipal securities	23,756	562	17	24,301
Other debt securities	1,110	14	-	1,124
Equity securities	2,488	504	-	2,992
	$70,764	$ 1,410	$ 222	$71,952
Held-to-Maturity Securities:				
December 31, 1998				
State and municipal securities	$ 1,490	$ 45	$ -	$ 1,535
Other debt securities	7,372	183	-	7,555
	$ 8,862	$ 228	$ -	$ 9,090
December 31, 1997				
State and municipal securities	$ 1,490	$ 26	$ -	$ 1,516

Other debt securities	9,584	174	30	9,728
	$11,074	$ 200	$ 30	$11,244

</TABLE>

Equity securities include restricted investments of $2,398,000 and $1,932,000 at December 31, 1998 and 1997, respectively. These securities do not have a readily determinable fair value and lack a market. Therefore, they are carried at cost and periodically evaluated for impairment.

The scheduled maturities of securities held-to-maturity and securities available-for-sale at December 31, 1998 were as follows:

<TABLE>
<CAPTION>

	Securities Held-to-Maturity		Securities Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ -	$ -	$ 5,910	$ 5,955
Due from one to five years	1,055	1,082	42,288	42,964
Due from five to ten years	435	453	18,794	19,181
Due after ten years	7,372	7,555	8,898	8,986
Equity securities	-	-	3,047	3,069
	$ 8,862	$ 9,090	$ 78,937	$ 80,155

</TABLE>

Notes to Consolidated Financial Statements

Investment securities with a carrying amount of approximately $16,019,000 at December 31, 1998 and $15,174,000 at December 31, 1997 were pledged to secure public deposits.

Gross realized gains and losses on dispositions of securities available-for-sale were as follows:

<TABLE>
<CAPTION>

(In thousands) Available-for-Sale	1998	1997	1996
<S>	<C>	<C>	<C>
Gross realized gains	$ 474	$ 165	$ 103
Gross realized losses	(17)	(65)	(62)
Net realized gain	$ 457	$ 100	$ 41

</TABLE>

In connection with the business combination of the Company and First Colonial Bank, FSB, First Colonial Bank, FSB transferred most of its investment portfolio from the held-to-maturity category to available-for-sale on March 1, 1996, in order to maintain the Company's existing interest rate risk position and credit risk policy. The transfer consisted of the entire investment portfolio of U.S. Government agency and corporation obligations (except mortgage-backed securities). The transfers are shown separately on the consolidated statement of changes in shareholders' equity, as follows:

<TABLE>
<CAPTION>

(In thousands)	
<S>	<C>
Fair market value at date of transfer	$ 9,095
Amortized cost	9,245
Unrealized loss	(150)
Related income tax effect	51
Net decrease to shareholders' equity	$ (99)

</TABLE>

NOTE 3 - COMPONENTS OF COMPREHENSIVE INCOME

Comprehensive income consists of the following for the years ended December 31:

(In thousands)	1998	1997	1996
Net income	$ 4,309	$ 3,805	$ 2,417
Other comprehensive income	18	623	(544)
	$ 4,327	$ 4,428	$ 1,873

The components of other comprehensive income and related tax effects for the years ended December 31 are as follows:

(In thousands)	1998	1997	1996
Unrealized gains (losses) on available-for-sale-securities	$ 487	$ 852	$ (695)
Transfer of held-to-maturity securities to available-for-sale	-	-	(99)
Reclassification adjustment for gains realized in income	457	100	41
Net unrealized gains (losses)	30	952	(835)
Tax effect	12	329	(291)
Net-of-tax-amount	$ 18	$ 623	$ (544)

Notes to Consolidated Financial Statements

NOTE 4 - LOANS RECEIVABLE

Loans receivable are summarized below:

(In thousands)	1998	1997
Commercial	$ 33,266	$ 34,513
Real estate - commercial	49,495	50,522
Real estate - construction	24,838	19,683
Real estate - mortgage	141,484	130,055
Agricultural	2,536	4,802
Installment	23,988	23,644
Total loans	275,607	263,219
Less:		
Allowance for loan losses	(3,827)	(3,457)
Unearned discount	(17)	(25)
Deferred loan (fees) expenses	129	(50)
Net loans receivable	$ 271,892	$ 259,687
Loans held for sale	3,599	789
	$ 275,491	$ 260,476

</TABLE>

The allowance for loan losses is summarized below:

	1998	1997	1996
Balance - beginning of year	$ 3,457	$ 3,176	$ 2,891
Provision charged to operations	507	439	491
Charge-offs	(254)	(249)	(302)
Recoveries	117	91	96
Balance - end of year	$ 3,827	$ 3,457	$ 3,176

The recorded investment in impaired loans requiring an allowance for loan losses as determined in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," was $1,408,000 and $2,017,000 at December 31, 1998 and 1997, respectively. The portion of the allowance for loan losses allocated to the impaired loan balance was $162,000 and $423,000 at December 31, 1998 and 1997, respectively. The recorded investment in impaired loans that do not have a portion of the allowance for loan losses allocated was $660,000 and $385,000 at December 31, 1998 and 1997, respectively. For the year ended December 31, 1998, the average recorded investment in impaired loans was $1,524,000, and interest income recognized on impaired loans was $149,000. For the year ended December 31, 1997, the average recorded investment in impaired loans was $2,346,000, and interest income recognized on impaired loans was $199,000. For the year ended December 31, 1996, the average recorded investment in impaired loans was $3,250,000, and interest income recognized on impaired loans was $151,000.

Mortgage loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of these loans at December 31, 1998, 1997, and 1996 were $18,969,000, $28,814,000, and $23,474,000, respectively.

Non-cash additions to real estate owned were $254,000 and $436,000 for the years ended December 31, 1998 and 1997, respectively.

NOTE 5 - RELATED PARTIES

The Company has had and expects to have in the future, lending transactions in the ordinary course of its business with directors, officers, principal shareholders, and their associates, on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with others. Such extensions of credit do not involve more than the normal risk of collectibility or present other unfavorable features. The aggregate amount of loans to such individuals as of December 31, 1998 and 1997 was $8,756,000 and $8,935,000, respectively. During 1998, new loans to such related parties amounted to $5,702,000 and repayments amounted to $5,881,000. The amount of deposits from related parties held by the Company at December 31, 1998 and 1997 were $8,487,000 and $8,645,000, respectively.

NOTE 6 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

(In thousands)	1998	1997
Land	$ 2,228	$ 1,432
Buildings	7,113	5,216
Furniture and equipment	5,877	5,069
	15,218	11,717
Accumulated depreciation and amortization	(5,081)	(4,237)
Net book value	$ 10,137	$ 7,480

</TABLE>

NOTE 7 - DEPOSITS

Deposits are summarized as follows:

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Non-interest bearing demand	$ 46,805	$ 46,490
Interest bearing demand	58,187	37,380
Money market	20,600	22,154
Savings	44,037	47,130
Time deposits $100,000 and greater	34,307	32,868
Other time deposits	168,836	161,551
	$ 372,772	$ 347,573

<CAPTION>

The scheduled maturities of time deposits at December 31, 1998 and 1997, were as follows:

(In thousands)	1998	1997
Less than one year	$ 131,742	$ 119,764
One to five years	70,416	73,963
Over five years	985	692
	$ 203,143	$ 194,419

</TABLE>

NOTE 8 - COMMITMENTS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

COMMITMENTS AND STANDBY LETTERS OF CREDIT

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following table summarizes the Company's off-balance sheet financial instruments by type as of December 31, 1998 and 1997.

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Commitments to extend credit:		
Commercial real estate	$ 10,555	$ 9,763
Commercial	22,524	11,320
Real estate mortgage	19,185	15,085
Other	12,800	3,890
	$ 65,064	$ 40,058

Standby letters of credit	$ 1,714	$ 1,629

</TABLE>

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, and includes unutilized credit card lines. 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 majority of commitments to extend credit have terms up to one year with variable interest rates. There are no significant fixed rate commitments. Management evaluates each customer's credit worthiness in determining the amount of collateral to obtain. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support the financing needs of the Company's commercial customers, and have varying terms. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk (whether on or off balance sheet) arising from financial instruments may exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have significant exposure to any individual customer or counterparty. However, the Company's loan portfolio is comprised of credit extensions principally to customers in the Central and Southeastern areas of Virginia. Most of these customers are also depositors of the Company.

Loans secured by real estate are approximately 79% and 75% of total loans at year-end 1998 and 1997, respectively. Approximately 61% and 60% of these real estate loans in 1998 and 1997, respectively, are secured by 1-4 family residential real estate. Commercial and standby letters of credit are granted primarily to commercial borrowers.

OPERATING LEASES

The Company has several noncancellable operating leases for branch offices. The expirations of these leases range from one to fifteen years. Rent expense charged to operations under operating lease agreements totaled $136,000, $95,000, and $81,000 in 1998, 1997, and 1996, respectively.

Future minimum rentals are as follows:

<TABLE>
<S> <C> <C>

(In thousands)		
	1999	$ 127
	2000	120
	2001	120
	2002	120
	2003	121
	Thereafter	296
Total minimum lease payments		$ 904

</TABLE>

LEGAL PROCEEDINGS

There were no material legal proceedings other than ordinary routine litigation incidental to the business at December 31, 1998.

CREDIT AVAILABILITY

At December 31, 1998, the Company's Banking Subsidiaries had $29,240,000 available under lines of credit with the Federal Home Loan Bank. In addition, the Company has a $1,000,000 line of credit with another financial institution, which had a zero balance at December 31, 1998.

Notes to Consolidated Financial Statements

NOTE 9 - SHAREHOLDERS' EQUITY

At December 31, 1998, the Company had three qualified incentive stock-based compensation plans. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plan. Accordingly, no compensation cost has been recognized for its plans. The effect of applying SFAS No. 123 for pro-forma disclosures is not likely to be representative of the effects on basic and diluted earnings per share for future years. However, had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)		1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Net income - basic and diluted	As reported	$ 4,309	$ 3,805	$ 2,417
	Pro-forma	$ 4,109	$ 3,645	$ 2,241
Basic earnings per share	As reported	$ 1.16	$ 1.04	$ 0.66
	Pro-froma	$ 1.11	$ 0.99	$ 0.61
Diluted earnings per share	As reported	$ 1.14	$ 1.02	$ 0.65
	Pro-forma	$ 1.08	$ 0.98	$ 0.60

</TABLE>

Under the 1996 Stock Option Plan, the Company may grant options to its employees up to 10 percent of the issued and outstanding common stock of the Company at any time. Under this plan, the exercise price of each option equals the market price of the Company's stock on the date of the grant, and an option's maximum term is 10 years with 20 percent of the options becoming exerciseable annually beginning one year following the date of grant. The Company's other two plans were plans of subsidiaries prior to joining the Company, and granting of options under both plans has been terminated. The options for the three plans are vested upon the commencement date of the exercise periods.

Stock option transactions are summarized below:

<TABLE>
<CAPTION>

	1998	Weighted Average Exercise Price Per Share	1997	Weighted Average Exercise Price Per Share	1996	Weighted Average Exercise Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding - beginning of year:	255,458	$ 11.88	267,058	$ 11.68	91,845	$ 7.41
Granted	37,500	21.45	-	-	187,500	13.53
Exercised	(47,110)	13.10	(11,000)	5.94	(11,270)	6.78
Lapsed	(4,980)	13.53	(600)	10.20	(1,017)	11.08
Options outstanding - end of year	240,868	$ 13.52	255,458	$ 11.88	267,058	$ 11.68
Options exercisable - end of year	107,428	$ 10.74	104,708	$ 9.51	76,558	$ 7.07

</TABLE>

The weighted average fair value of options granted was $5.29 and $4.70 in 1998 and 1996, respectively. Fair value is estimated using the Black-Scholes option pricing model with the following assumptions:

	1998	1997	1996
Dividend yield	2.2%	-	2.0%
Expected life	5 years	-	5 years
Expected volatility	24%	-	37%
Risk-free interest rate	5.5%	-	6.2%

Notes to Consolidated Financial Statements

The following table summarizes information about stock options outstanding at December 31, 1998:

Options Outstanding				Options Exercisable	
Exercise Prices Per Share	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
$ 7.27	48,005	3	$ 7.27	48,005	$ 7.27
$ 13.45	27,505	8	$ 13.45	10,315	$ 13.45
$ 13.56	127,858	8	$ 13.56	49,108	$ 13.56
$ 21.45	37,500	10	$ 21.45	-	$ -
$ 7.27-21.45	240,868	7	$ 13.52	107,428	$ 10.74

REGULATORY MATTERS

The Company is 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its Banking Subsidiaries must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification also are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its Banking Subsidiaries 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, 1998, that the Company meets all capital adequacy requirements to which it is subject.

As of September 30, 1998, the most recent notification, the Federal Reserve Bank of Richmond categorized the Company and its Banking Subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and its Banking Subsidiaries 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 has changed the institution's category.

Notes to Consolidated Financial Statements

The Company's actual and required capital amounts and ratios as of December 31, 1998 and 1997, are presented in the table.

<TABLE>
<CAPTION>

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Prompt Corrective Action Provisions	
December 31, 1998	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 43,924	16.9%	$ 20,821	>=8.0%	$ N/A	>= N/A%
Bank of Suffolk	13,987	19.1	5,866	8.0	7,332	10.0
James River Bank	8,631	14.1	4,910	8.0	6,138	10.0
James River Bank/Colonial	3,723	14.4	2,070	8.0	2,588	10.0
First Colonial Bank	12,734	12.5	8,143	8.0	10,179	10.0
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$40,663	15.6%	$ 10,411	>=4.0%	$ N/A	>= N/A%
Bank of Suffolk	13,069	17.8	2,933	4.0	4,399	6.0
James River Bank	7,862	12.8	2,455	4.0	3,683	6.0
James River Bank/Colonial	3,412	13.2	1,035	4.0	1,553	6.0
First Colonial Bank	11,460	11.3	4,072	4.0	6,107	6.0
Tier 1 Capital (to Average Assets)						
Consolidated	$ 40,663	9.8%	$ 16,535	>=4.0%	$ N/A	>= N/A%
Bank of Suffolk	13,069	11.3	4,645	4.0	5,807	5.0
James River Bank	7,862	8.6	3,657	4.0	4,571	5.0
James River Bank/Colonial	3,412	8.5	1,611	4.0	2,014	5.0
First Colonial Bank	11,460	7.0	6,523	4.0	8,154	5.0

</TABLE>

<TABLE>
<CAPTION>

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Prompt Corrective Action Provisions	
December 31, 1997	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 40,245	16.0%	$ 20,169	>=8.0%	$ N/A	>= N/A%
Bank of Suffolk	13,258	18.2	5,843	8.0	7,303	10.0
James River Bank	10,565	18.4	4,599	8.0	5,749	10.0
James River Bank/Colonial	3,413	16.0	1,705	8.0	2,132	10.0
First Colonial Bank	11,959	12.3	7,801	8.0	9,751	10.0
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 37,094	14.7%	$ 10,085	>=4.0%	$ N/A	>= N/A%
Bank of Suffolk	12,343	16.9	2,921	4.0	4,382	6.0
James River Bank	9,815	17.1	2,300	4.0	3,450	6.0
James River Bank/Colonial	3,146	14.8	853	4.0	1,279	6.0
First Colonial Bank	10,739	11.0	3,900	4.0	5,851	6.0
Tier 1 Capital (to Average Assets)						
Consolidated	$ 37,094	9.7%	$ 15,433	>=4.0%	$ N/A	>= N/A%

Bank of Suffolk	12,343	11.6	4,249	4.0	5,311	5.0
James River Bank	9,815	11.0	3,655	4.0	4,568	5.0
James River Bank/Colonial	3,146	8.3	1,521	4.0	1,901	5.0
First Colonial Bank	10,739	7.2	5,992	4.0	7,490	5.0

</TABLE>

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

NOTE 10 - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31 were as follows:

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Current tax provision:			
Federal	$ 1,613	$ 1,426	$ 875
State	32	89	14
	1,645	1,515	889
Deferred tax provision	(49)	(21)	19
	$ 1,596	$ 1,494	$ 908

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

	1998	1997	1996
Federal statutory income tax rates	34.00%	34.00%	34.00%
State income taxes	0.54	1.65	0.47
Tax-exempt interest income	(6.86)	(7.26)	(12.14)
Nondeductible merger costs	-	-	5.10
Other	(0.65)	(0.19)	(0.11)
	27.03%	28.20%	27.32%

The significant components of deferred income tax assets and liabilities as of December 31 consist of the following:

(In thousands)	1998	1997
Deferred tax assets:		
Allowance for loan losses	$ 1,202	$ 1,105
Deferred compensation	248	191
Other	23	27
Total deferred tax assets	1,473	1,323
Deferred tax liabilities:		
Depreciation	285	285
Deferred loan fees	258	156
Dividends on FHLB/FHLMC stock	110	122
Unrealized gain on AFS securities	414	402
Discount accretion on securities	49	45
Other	45	33
Total deferred tax liabilities	1,161	1,043
Net deferred income tax asset	312	280
Less valuation allowance	(14)	(19)
	$ 298	$ 261

</TABLE>

Included in retained earnings is $1,082,000 at December 31, 1998 and 1997 for which no provision for income taxes has been made. This represents allocations of income to bad debt deductions for tax purposes only in years prior to 1988 related to First Colonial Bank and its subsidiaries. Since the Company does not intend to use the reserves for purposes other than to absorb its tax bad debt losses, deferred income taxes have not been provided on such reserves. The approximate amount of unrecognized tax liability allocated with these historical additions is $411,000. For years after 1988, deferred income taxes have been provided

on the difference between tax and book bad debt deductions in accordance with SFAS 109, "Accounting for Income Taxes." If the amounts that qualify as deductions for federal income tax purposes only are used for purposes other than bad debt losses or operations losses, they will be subject to federal income tax at the then current corporate rate.

NOTE 11 - RETIREMENT PLANS

The Company has a defined contribution plan with 401(K) features, which covers substantially all employees who have completed six months of service. Employees may contribute up to 15% of their salaries, and the Company matches 50% of the first 4% and 25% of the next 4% of employee contributions. Additional contributions can be made by the Company at the discretion of the Board of Directors. Prior to joining the Company, each of the Company's subsidiaries had qualified retirement plans for the future benefit of their employees. All of these plans, which consisted of defined benefit, defined contribution, employee stock ownership and 401(k) plans, were terminated. Costs of these plans included in salaries and employee benefits in the consolidated statements of income are as follows:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Defined contribution/401(k) plan	$ 342	$ 405	$ 171
Defined benefit plan - terminated effective December 31, 1995	$ -	$ -	$ 10
Employee stock ownership plan - terminated effective May 31, 1996	$ -	$ -	$ 56

</TABLE>

The Company has entered into deferred compensation agreements providing retirement for certain officers and employees. Vested benefits under the agreements are payable in installments over a ten or fifteen year period upon death or retirement. The present value of the liabilities for the benefits is being accrued over the expected term of active service of the employees. The deferred compensation expense for the officers and employees was $116,000, $104,000 and $59,327 for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 12 - OTHER EXPENSES

The following items shown in the other expense category are disclosed because their amounts exceed one percent of total income for the years ended December 31:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Deposit insurance premiums	$ 111	$ 112	$ 1,028
Directors' fees	$ 341	$ 363	$ 379
Merger expenses	$ -	$ -	$ 530

</TABLE>

Notes to Consolidated Financial Statements

NOTE 13 - PARENT COMPANY

The Parent Company, in the ordinary course of business, provides its subsidiaries with certain centralized management services and staff support. The cost of these services is allocated to each subsidiary based on analyses of the services rendered and on analyses of each subsidiary's total assets and net income.

The primary source of funds for the dividends paid by the Company is dividends received from its subsidiaries. Each of the Banking Subsidiaries is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The following is a summary that, based upon these restrictions, the various Banking Subsidiaries could have declared at December 31, 1998:

(In thousands)	
Bank of Suffolk	$ 1,055,000
James River Bank	$ -
First Colonial Bank	$ 2,445,000
James River Bank/Colonial	$ 330,000

In 1998, the Company sought and received approval from the Federal Reserve Bank for James River Bank to pay dividends to the Company in excess of its regulatory limit. Accordingly, in years 1999 and 2000, any dividends paid to the Company by James River Bank must be approved by the Federal Reserve Bank.

The parent company's condensed balance sheets as of December 31, 1998 and 1997, and the related condensed statements of income and cash flows for each of the years in the three year period ended December 31, 1998, are as follows:

<TABLE>
<CAPTION>

CONDENSED BALANCE SHEETS

(In thousands)	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 1,598	$ 430
Securities available-for-sale	194	798
Investments in subsidiaries:		
Bank	38,847	39,010
Bank-related	1,641	461
Other assets	1,772	191
	$ 44,052	$ 40,890
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	$ 349	$ 506
Shareholders' equity	43,703	40,384
	$ 44,052	$ 40,890

</TABLE>

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

CONDENSED STATEMENTS OF INCOME

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>

Income			
Dividends from bank subsidiaries	$ 4,822	$ 2,733	$ 2,399
Management fees from subsidiaries:			
Bank	1,308	964	633
Bank-related	50	13	-
Interest income	2	2	2
Other income	474	74	-
Total income	6,656	3,786	3,034
Expenses			
Salaries and benefits	1,010	559	345
Directors fees	128	140	158
Other expense	672	472	934
Total expense	1,810	1,171	1,437
Income before income taxes and equity in undistributed net income of subsidiaries	4,846	2,615	1,597
Income tax benefit	17	44	71
Income before equity in undistributed net income of subsidiaries	4,863	2,659	1,668
Equity in undistributed net income of subsidiaries (1)	(554)	1,146	749
Net income	$ 4,309	$ 3,805	$ 2,417

(1) Amount in parentheses represents the excess of dividends declared by the subsidiaries to the Parent over the net income of the subsidiaries.

</TABLE>

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$ 4,309	$ 3,805	$ 2,417
Adjustments:			
Depreciation	29	16	7
Gain on sale of securities	(439)	(65)	-
Equity in undistributed net income of subsidiaries	554	(1,147)	(749)
Change in other assets	(94)	(17)	81
Change in other liabilities	10	294	73
Net cash provided by operations	4,369	2,886	1,829
Investing activities:			
Purchase of property and equipment	(1,239)	(9)	(8)
Proceeds from sale of securities	745	175	-
Purchase of available-for-sale securities	(198)	-	(87)
Capitalization of subsidiaries	(1,501)	(1,150)	(600)
Net cash used in investing activities	(2,193)	(984)	(695)
Financing activities:			
Cash dividends paid	(1,558)	(1,372)	(1,275)
Common stock issued	550	98	121
Common stock repurchased	-	(373)	-
Net cash used in financing activities	(1,008)	(1,647)	(1,154)

Net increase (decrease) in cash and cash equivalents	1,168	255	(20)
Cash and cash equivalents - beginning	430	175	195
Cash and cash equivalents - ending	$ 1,598	$ 430	$ 175

</TABLE>

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of year end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

The following information should not be interpreted as an estimate of the fair value of the Company since a fair value calculation is only provided for a limited portion of its assets. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 1998 and 1997.

FINANCIAL INSTRUMENTS VALUED AT CARRYING VALUE

The carrying amounts of cash and cash equivalents approximate their fair value. The carrying amounts of accrued interest receivable and payable approximate their fair values.

AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES

Fair values for securities, excluding restricted equity securities, are based on available quoted market prices. If quoted market prices are unavailable, fair values are based on quoted market prices of comparable instruments. For unquoted securities for which no comparable instruments exist, the reported fair value is estimated on the basis of cost, book or appraised value as deemed appropriate by management. Available-for-sale securities are carried at their aggregate fair value.

LOANS

For variable rate commercial loans that reprice frequently (within a relatively short time frame) and have no significant change in credit risk, fair values are based on carrying values. Residential first mortgages are based on quoted market prices of similar loans. Fair values for certain junior mortgage loans, consumer installment loans, credit-card loans, and other consumer loans are estimated using discounted cash flows models. The discount rates are based on current market interest rates for similar types of loans. Fair values for commercial real estate and commercial loans that do not reprice or do not mature within relatively short time frames are estimated using discounted cash flow analysis. The discount rates used are those currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

DEPOSITS

The fair values of demand deposits and deposits with no defined maturity are taken to be the amount payable on demand at the reporting date. The fair values for fixed-maturity deposits are estimated using discounted cash flow models based on rates currently offered for the relevant product types with similar remaining maturities.

SHORT-TERM BORROWNGS

The carrying amounts of short-term borrowings approximate their fair values.

The carrying amount in the table below is the amount at which the financial instruments are reported in the financial statements.

(IN THOUSANDS)	1998 CARRYING AMOUNT	1998 FAIR VALUE	1997 CARRYING AMOUNT	1997 FAIR VALUE
Assets				
Cash and due from banks	$ 14,268	$ 14,268	$ 14,087	$ 14,087
Interest bearing deposits with banks	12,031	12,031	2,720	2,720
Federal funds sold	10,809	10,809	14,382	14,382
Investment securities	89,017	89,245	83,025	83,196
Loans	275,491	283,424	260,476	265,923
Interest receivable	2,970	2,970	2,939	2,939
	$ 404,586	$ 412,747	$ 377,629	$ 383,247
Liabilities				
Non-interest bearing deposits	$ 46,805	$ 46,805	$ 46,490	$ 46,490
Interest bearing deposits	325,967	327,162	301,083	303,301
Short-term borrowings	719	719	-	-
Interest payable	810	810	752	752
	$ 374,301	$375,496	$ 348,325	$350,543

NOTE 15 - EARNINGS PER SHARE RECONCILIATION

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

(Dollars in thousands, except per share data)	1998	1997	1996
Net Income (Numerator, Basic and Diluted)	$ 4,309	$ 3,805	$ 2,417
Basic average shares outstanding (Denominator)	3,703	3,675	3,676
Basic net income per share	$ 1.16	$ 1.04	$ 0.66
Effect of dilutive securities:			
Basic average shares outstanding	3,703	3,675	3,676
Effect of stock options	86	58	61
Diluted average shares outstanding (Denominator)	3,789	3,733	3,737
Diluted net income per share	$ 1.14	$ 1.02	$ 0.65

NOTE 16 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Dollars in thousands, except per share data)

	1998			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>	<C>	<C>	<C>
Interest income	$ 7,502	$ 7,757	$ 7,691	$ 7,691
Net interest income	$ 3,922	$ 4,084	$ 3,966	$ 3,957
Net income	$ 1,330	$ 1,091	$ 1,021	$ 867
Basic Earnings per share	$ 0.36	$ 0.30	$ 0.27	$ 0.23
Diluted Earnings per share	$ 0.35	$ 0.29	$ 0.27	$ 0.23

	1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 7,136	$ 7,393	$ 7,508	$ 7,570
Net interest income	$ 3,650	$ 3,854	$ 3,924	$ 3,982
Net income	$ 876	$ 908	$ 968	$ 1,053
Basic Earnings per share	$ 0.24	$ 0.25	$ 0.26	$ 0.29
Diluted Earnings per share	$ 0.24	$ 0.24	$ 0.26	$ 0.28

</TABLE>

NOTE 17 - SUBSEQUENT EVENT

On February 17, 1999, the Company entered into a definitive merger agreement with State Bank of Remington, Inc. ("State Bank") under which State Bank would become a wholly owned subsidiary of the Company. The agreement provides for State Bank shareholders to recieve 2.9 shares of the Company's common stock for each outstanding share of State Bank's common stock. At December 31, 1998, State Bank had approximately 291,000 shares of common stock outstanding. The transaction is expected to qualify as a tax-free exchange and to be accounted for as a pooling of interests. The merger is subject, among other conditions, to shareholder and regulatory approvals.

General Information

EXECUTIVE OFFICE
1514 Holland Road
P.O. Box 440
Suffolk, Virginia 23439-0440

REQUESTS FOR INFORMATION
Deborah R. Scott, Administrative Assistant
(757) 934-8100, Fax (757) 934-8612

FORM 10-K
A form 10-K Report filed with the Securities and Exchange Commission is available to shareholders without charge upon written request.

STOCK TRANSFER AGENT
First Union National Bank of North Carolina
1525 W. W.T. Harris Blvd., Building 3C3
Charlotte, North Carolina 28288-1154

STOCK LISTING
The common stock of James River Bankshares, Inc. is traded on the NASDAQ Stock Market's National Market System under the symbol JRBK.

MARKET PRICE FOR COMMON STOCK
The following table sets forth the high, low, and closing sales prices of the Common Stock as reported by the NASDAQ Stock Market's National Market System for the periods listed. Sales prices have been restated to reflect the Company's three-for-two stock split effected in the form of a 50% stock dividend in November 1997. The Common Stock is thinly traded. On February 28, 1999, there were approximately 1,732 shareholders of record.

<TABLE>

<CAPTION>

1998	Sales Prices			
	HIGH	LOW	CLOSING	DIVIDENDS
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Fourth Quarter	19.50	16.50	17.50	$0.12
Third Quarter	24.00	17.50	18.25	$0.10
Second Quarter	26.00	21.50	22.00	$0.10
First Quarter	23.00	19.63	21.25	$0.10
1997				
	HIGH	LOW	CLOSING	DIVIDENDS
Fourth Quarter	21.00	16.83	21.00	$0.10
Third Quarter	18.17	15.00	16.00	$0.09
Second Quarter	15.17	13.33	15.17	$0.09
First Quarter	14.17	13.17	13.33	$0.09

</TABLE>

(Reflects changes through February 28, 1999)

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
James River Bankshares, Inc.

We consent to incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 33-99156, 333-07997, 333-07999 and 333-61329) of James River Bankshares, Inc. of our report dated January 28, 1998 (except for Notes 1 and 17, as to which the date is February 17, 1999), relating to the consolidated balance sheets of James River Bankshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 Annual Report of James River Bankshares, Inc.

GOODMAN & COMPANY, L.L.P.

131 Temple Lake Drive, Suite One
Colonial Heights, Virginia 23834
March 25, 1999

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