



2014

annual report

 Eagle Financial Services, Inc.

Dear Fellow Shareholders:

I am pleased to present my yearly report to you, our shareholders, and want to thank you for your continued loyalty and support of Eagle Financial Services, Inc. and Bank of Clarke County. We continue to be proud of our consistent performance over the past 134 years even as the industry continues to evolve and become more challenging and competitive.

The banking industry seems to have always faced strong headwinds of one sort or another and most recently it faces increased regulations such as the Dodd Frank Wall Street Reform and Consumer Protection Act. Known as the Dodd Frank Act, this latest set of regulations is supposed to lower risk in various parts of the U.S. financial system. However, as with a lot of new regulation, it creates significant regulatory burden for small- and mid-sized banks like Bank of Clarke County. Even Senator Frank Dodd and Congressman Barney Frank, the writers of this onerous legislation, have said publicly that the law should be amended to soften the blow for the smaller banks.

Even with the costs of time and resources needed to comply with increasing regulatory burden, your company remains a safe and sound financial institution with a bright future. Bank of Clarke County is proud to once again be named to the list of Top 200 Banks in the USA as reported by American Banker magazine. The ranking is based on a financial institution's three-year average return on equity. In 2014, Eagle Financial Services ranked 131 nationwide. In 2013, our ranking was 167.

Net income was \$7.14 million in 2014 as compared to \$7.16 million in 2013. Earnings per basic share in 2014 was \$2.08 and \$2.11 in 2013. Contributors to 2014 net income were loan growth of \$25.55 million, deposit growth of nearly \$17.50 million and a net interest margin of 4.20%, well above peer averages.

This financial performance allowed the Bank to pay a dividend of \$0.77 per share which is \$0.01 over the total dividend paid in 2013. This represents the 28th consecutive year of dividend increases, a distinction that very few companies in the United States can claim.

A prevailing "question on the street" is . . . when will interest rates go up? The honest answer is . . . we don't know. The bigger challenge for us is how to manage our net interest margin in such a low rate environment for a prolonged period of time. The last Federal Funds rate increase was nine years ago.

We have experienced solid growth in our mature markets of Clarke County, Frederick County and the City of Winchester, illustrated by a 9.90% increase in core deposits in those areas. Our planned growth strategy in Loudoun County has seen the development of three branches in Round Hill, Purcellville and One Loudoun. This last branch, located at 44801 Saranac Street in Ashburn, opened in April 2015 and plans are underway for the opening of a branch at 504 East Market Street in Leesburg, Virginia in summer 2015.

The execution of this strategy may challenge profits in the near term, not unlike our expansion into the 'then' growth market of Winchester and Frederick County in 1992. Growth, however, remains essential to the Company's sustained profits and shareholder returns.

Just like growth and expansion is essential to survival, adoption of technology/products/services is essential to remaining relevant and competitive. In 2014, we introduced instant issue debit cards. Now, instead of waiting for a card and Personal Identification

Number (PIN) to arrive in the mail (which can take up to 14 days), our customers receive their new card before leaving the branch. We are among the first in our region to offer such a customer-focused convenience, which has the added advantage of safety (no more confidential information lying in mailboxes, etc.).

Social media continues to be a part of our overall communications strategy. Bank of Clarke County has over 1,200 followers on facebook and 190 followers on twitter (@bankofclarke). My twitter handle (@JRMilleson) has over 100 followers. Please "like" and "follow" us on these social media channels and spread the word – the more followers we have, the more effective our communications will be going forward.



Our customers have eagerly welcomed Bank of Clarke County mobile banking apps for Apple® and Android® devices that make banking easier than ever, currently approaching 4,000 users. Recognizing the need to offer what customers want, we constantly strive to research, analyze and roll out new products and services. As a community bank, it is our responsibility to address the needs and wants of customer segments all across the age spectrum and their related financial needs – from wealth accumulation to wealth transfer - cradle to grave (and since we have an established trust and investment department, we go beyond the grave as well!).

And speaking of trust services, I want to take this opportunity to commend Libba Pendleton for her many years of dedicated service to your company and specifically to Eagle Investment Group (EIG). Libba retired in 2014. She was instrumental in forming EIG, taking on the added management of both the trust and investment sides. Under her leadership, EIG has grown and remains a contributing part of the company's overall successes. All of us wish Libba a fulfilling and lengthy retirement! I want to wel-

come to the Bank family Carl Esterhay, our new Senior Trust Officer. Carl comes to us with an impressive legal background and extensive experience in trust administration. Carl is the right fit for your Company with his demeanor and personal approach to working with customers. Welcome Carl!

I would like to conclude by thanking my co-workers who work diligently for customers and for the Company. Thank you for your continued support of Eagle Financial Services, Inc. and Bank of Clarke County. I look forward to visiting with many of you at our Shareholders' Meeting in May.

Sincerely,



John R Milleson
President and Chief Executive Officer

Eagle Financial Services, Inc. Executives

JOHN R MILLESON President/Chief Executive Officer
 JAMES W MCCARTY JR Vice President/Secretary/Treasurer
 KATHLEEN J CHAPPELL Vice President/Chief Financial Officer

Bank of Clarke County Executives



KATHLEEN J CHAPPELL
Senior Vice President/
Chief Financial Officer



KALEY P CROSEN
Senior Vice President/
Human Resources Director



CARL A ESTERHAY
Senior Vice President/
Senior Trust officer



DALE L FRITTS
Senior Vice President/
Senior Loan Officer



JOHN E HUDSON
Senior Vice President/
Marketing Director



JAMES W MCCARTY JR
Executive Vice President/
Chief Administrative Officer



JOHN R MILLESON
President/
Chief Executive Officer

BOARD OF DIRECTORS - Eagle Financial Services, Inc. and Bank of Clarke County



Seated, left to right - Randall G. Vinson, Robert W. Smalley, Jr. (Vice Chair), Thomas T. Gilpin (Chair), John R. Milleson (President/CEO) and Thomas T. Byrd.
Standing, left to right - Mary Bruce Glaize, Douglas C. Rinker, James T. Vickers, John D. Stokely, Jr., James R. Wilkins, Jr. and Robert E. Sevilla.

EAGLE FINANCIAL SERVICES, INC ANNUAL MEETING

The annual Shareholders' meeting will be held at John H Enders Fire Hall, 9 South Buckmarsh Street, Berryville, Virginia on Wednesday, May 20, 2015 at 12 Noon.

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FORM 10K

A copy of the Company's 2014 Form 10K annual report to the Securities and Exchange Commission may be obtained without charge on the investor relations page of our website (www.bankofclarke.com) or upon written request.

EAGLE FINANCIAL SERVICES, INC DIVIDEND REINVESTMENT PLAN

Shareholders of record can acquire additional common stock through automatic reinvestment of quarterly dividends. For more information or to sign up, contact the Transfer Agent.

Join us!

