



EAGLE FINANCIAL SERVICES, INC.
2012 ANNUAL REPORT

A LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

This past year Eagle Financial Services, Inc. achieved financial successes in spite of increased regulation and the low interest rate environment, both of which could adversely affect our industry and Company over the next few years.

One of the most pressing issues on the minds of most bankers in this country is the amount of never-ending regulation that is being added to the already over-regulated industry. The Dodd-Frank Act has added a significant workload to bankers who were already working hard to comply with existing regulations.

Many customers have inquired when rates will increase so their deposits will earn more interest. Financial forecasts and our own interest rate models predict continued low interest rates which will adversely affect the net interest margins in our industry. Your Company has maintained a high performing net interest margin but we anticipate margin decreases over the next several years as loans reprice at lower rates and securities with higher coupons mature. Our Asset/Liability Management Committee works diligently on a weekly basis to maintain proper balance between higher margins and balance sheet growth.

The Bank continues to take an aggressive stance in eliminating problem assets. All foreclosed properties are actively marketed for sale and we expeditiously manage other problem assets in order to reach resolution as promptly as possible. Fortunately, our level of non-performing assets is well below that of our peers which proves to be a benefit to our shareholders.

For 2012, your Company generated a record net income of \$6.6 million, an increase of \$2.2 million (or 51.6%) over 2011. Many factors contributed to the hefty increase in net income, most notably the large decrease in the provision for loan losses.



Additionally, your Company was able to increase the annual dividend for the 26th consecutive year. We paid an annual dividend of \$0.73 compared to \$0.72 in 2011. We are one of the few companies in the country that can report such a long history of consecutive dividend increases. By virtue of increased income, our dividend payout ratio was reduced to a more traditional level of 37.10%. The stock price of the Company ended the year

at \$22.00 per share, compared to a year-end 2011 price of \$16.81.

Your Company finished 2012 with record total assets of \$593.0 million, compared to \$568.0 million the previous year. Driving the increase was growth in deposits all throughout the year. Loan growth was relatively flat with a small increase of \$7.7 million or 1.87%. As noted earlier, our required provision of loan loss expense was greatly reduced during 2012 which contributed to the increase in net income. Our provision for loan losses decreased from \$3.8 million in 2011 to \$1.7 million in 2012.

The development of your company in Loudoun County continues with the opening of our twelfth branch location, located at 203 Hirst Road in Purcellville, Virginia. We expect this full-service branch to be open by May 1, 2013. The Hirst Road branch is the second location that has been developed by your company in Loudoun. We entered that market in 2011 with the opening of a full-service branch in Round Hill, Virginia. We are currently number six in the Federal Deposit Insurance Corporation's report of market share as derived by total deposits (your company's market is defined as the counties of Clarke, Frederick and Loudoun and the City of Winchester).

Our branching strategy is continually being analyzed for the next opportunity in this growth market. We know from experience that convenience is still important to our customers and will be a factor in the decisions of future customers as we grow

our share of business in Loudoun. This new branch will be staffed with, for Loudoun residents particularly, familiar faces. Mary Liz McCauley has joined your company as a Vice President and Area Branch Manager, a new designation in your company. Mrs. McCauley will be responsible for managerial duties at both the Purcellville and Round Hill branches, her main office being on Hirst Road. Mrs. McCauley is a seasoned Loudoun banker and has developed significant relationships over the years with her customers. We feel that the work she has done in developing her business over the years will accelerate the success of our new branch. Joining Mrs. McCauley are experienced bankers Leslie Johnson, Janet Redd and Lori Heskett, all of whom have also worked in the Western Loudoun County market. As the Round Hill branch represented our first foray into this new market, the Purcellville branch will cement our intentions to fully embrace this market and develop business for your company to its fullest advantage.

Most recently your Company appointed Robert Sevila as its newest Board member. Mr. Sevila has previous bank director experience in Loudoun County. He is a respected attorney with many years of practice in the Loudoun County market and also served as Mayor of Leesburg from 1982 to 1992. Bob has already had a positive impact on our Company, adding depth and increased exposure in our expansion market

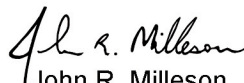
and bringing expertise and different talents that will strengthen the effectiveness of both boards.

We at the Bank value the referrals that we receive from customers and shareholders. Please encourage your family, friends, neighbors and business associates to contact us and allow us the opportunity to become their bank.

In closing, I wish to thank the family of bankers that we have at Bank of Clarke County. They have worked tirelessly over the past few years under difficult circumstances to exceed established goals and have built Bank of Clarke County into a sound, well respected, high performing Bank. Even with the upcoming challenges that your Company will face, our employees are fully prepared to meet the expectations of customers and shareholders. I look forward to visiting with many of you at the upcoming Annual Shareholders Meeting on Wednesday, May 15, 2013.

Thank you for your continued support of Eagle Financial Services, Inc. and Bank of Clarke County.

Sincerely,


John R. Milleson
President and CEO



Seated, left to right: Kathleen J Chappell - VP/CFO of Eagle Financial Services, Inc. and SVP/CFO of Bank of Clarke County; John R Milleson - Pres/CEO of Eagle Financial Services, Inc. and Bank of Clarke County; James W McCarty, Jr - VP/Sec/Trea of Eagle Financial Services and EVP/CAO of Bank of Clarke County.

Standing, left to right: John E Hudson - SVP/Mktg Dir; Elizabeth M Pendleton - SVP/STO; Dale L Fritts - SVP/SLO; Kaley P Crosen - SVP/HR Dir; Robert C Boyd - SVP/SCO.

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. Sevila.

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 15, 2013 at 12 Noon.

CORPORATE HEADQUARTERS
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TRANSFER AGENT

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& Trust Company

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EMAIL ADDRESS
customerservice@bankofclarke.com

FORM 10K
A copy of the Company's 2012 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.