



# ANNUAL REPORT

EAGLE FINANCIAL SERVICES, INC

It is my pleasure to once again bring my annual communication to you as shareholders of Eagle Financial Services, Inc. After coming off our milestone 135th year in 2016, I am reminded more than ever of the heritage of this institution every day. Being the oldest bank in the area and the fifth oldest bank in the Commonwealth of Virginia comes with it a responsibility to steward this company into the future – a future that can be filled with opportunity, advancement and reward.

2016 was also a year of firsts. For the first time, assets grew to over \$700 million. For the first time, total deposits grew to over \$600 million, including an increase of \$53 million in low-cost core deposits.

Net income in 2016 reached \$6.37 million versus \$6.89 million in 2015. Although the net amount is less, we can attribute that to a one-time gain on a trust-preferred investment that was redeemed in 2015. Taking that event out of the equation, we were actually up 43% in net income in 2016.

Our capital grew to \$79.4 million in 2016, surpassing 2015's capital of \$78.2 million. The Company manages its capital through dividend policy, a dividend investment plan and a stock buyback program. Every year since 2011 the Board of Directors has approved a buyback plan for up to 150,000 shares during the plan year. The approved plan allows the Company to repurchase shares from both the open market and individual shareholders. There were very few, if any, transactions during the first five years. Since approving the plan in June 2016, the Company has used \$2.1 million to repurchase almost 90,000 shares. The Company believes the plan increases the stock's liquidity, supports current price levels, and assists individual shareholders with selling large blocks of stock.

Dividends in 2016 totaled \$0.82 per share, an increase over 2015 total dividends that adds to our record-breaking run of 30 years of continuous dividend increases, one of the longest streaks in the entire country.



Eagle Investment Group, which consists of our trust and investment departments, had a successful 2016. Trust assets have grown to over \$130 million in investment management and trust administration. Our investment arm performed admirably and currently places 16th out of the 152 banks that utilize the support services of Infinex. Janice Kuhn, one of our investment reps, is currently on the "elite" level with Infinex that puts her in the top 5% of all representatives in performance.

American Banker Magazine once again included Eagle Financial Services, Inc. in its Top Performing 200 Banks in the United States, ranking our Company 113 out of the thousands of banks that fall into this asset class of less than \$2 billion. Banks that are honored on this list have a top-performing average return on equity for the past three years of reporting.

The 2016 presidential election was a roller coaster ride. Apart from the usual political characteristics, Donald Trump's presidency could positively affect the Company by a needed review of onerous and over-reaching regulation such as the Dodd-Frank Act. When this act was initiated, government was using a VERY broad brush and insinuated that community banks were indistinguishable from the mega banks. We all know that is not the case. Conversations about easing regulatory burden for smaller banks who perform safely are taking place which could bring some relief. We are watching with great anticipation the results of those conversations.

Opportunity continues to abound in the markets we serve. There is much churning as some long-operating banks merge with other banks. We have started to see increased inquiry and activity as customers of these merged banks appear to be seeking a bank that has experience, soundness and professional bankers as well as longevity. In their minds, they are finding

some peace of mind when switching to Bank of Clarke County.

Social media continue to be an exciting way to communicate with customers, prospects, businesses and the communities we serve. These channels provide an opportunity to engage with our market in ways that many community banks have failed to utilize. From product advertising to bank recognition to looks into our past, digital communication is a vital part of our strategic marketing plan. Please like us on facebook, follow us on twitter and subscribe to our youtube channel. I also encourage you to go to our website and subscribe to our quarterly e-newsletter.

Today's customer expects a myriad of channels by which to do their banking. We are witnessing a decline in the number of customers who prefer to stop in to a branch. We are seeing a sharp increase in customers utilizing electronic channels to do their banking, such as online banking and mobile banking. Remote deposit capture and ATM access add to the choices that make banking with us desirable. In fact, 2016 saw more customers using our electronic banking channels than visiting all of our branches combined. As a community bank, we deal with the entire spectrum of customer ages and preferences. And we recognize the fact that we must offer all the preferences to stay competitive. That's just the nature of the business.

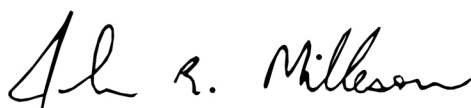
As in other businesses, employees eventually reach a point where they contemplate retirement after a rewarding and successful career.

We had an executive leave us in 2016 after a lengthy career as a banker. Dale Fritts retired in June 2016 after 15 years with Bank of Clarke. Dale came to us from BB&T and retired as Senior Vice President and Senior Loan Officer.

To fill the Chief Lender position after Dale's retirement, Joe Zmitrovich was hired to be the new Chief Lending Officer. Joe came to us from BB&T and Susquehanna Bank. Prior to joining the Company, Joe was Market President for the Southern Pennsylvania region for BB&T. Welcome to the executive team Joe.

In closing, let me thank you for your support and faith in your company. Our staff continues to find new business, welcome new relationships and support the communities in which we operate. They are a tremendous group of bankers. As always, please contact me with any questions you may have. My email address is [jmilleson@bankofclarke.com](mailto:jmilleson@bankofclarke.com). Or call me at 540.955.5227.

Sincerely,



John R Milleson  
President and Chief Executive Officer

## EXECUTIVE TEAM

Eagle Financial Services, Inc. and Bank of Clarke County



KATHLEEN J CHAPPELL  
VP/CFO, EFSI  
SVP/CFO, BOCC



KALEY P CROSEN  
SVP/HUMAN RESOURCES  
DIRECTOR, BOCC



CARL A ESTERHAY  
SVP/SENIOR TRUST  
OFFICER, BOCC



JOHN R MILLESON  
PRES/CEO, EFSI  
PRES/CEO, BOCC



JOHN E HUDSON  
SVP/MARKETING  
DIRECTOR, BOCC



JAMES W MCCARTY, JR  
VP/SEC-TREAS, EFSI  
EVP/CAO, BOCC



JOSEPH T ZMITROVICH  
SVP/CHIEF LENDING  
OFFICER, BOCC

# BOARD OF DIRECTORS

Eagle Financial Services, Inc. and Bank of Clarke County



THOMAS T. GILPIN  
Chair



ROBERT W. SMALLEY JR.  
Vice Chair



THOMAS T. BYRD



MARY BRUCE GLAIZE



SCOTT M. HAMBERGER



JOHN R. MILLESON



DOUGLAS C. RINKER



ROBERT E. SEVILA



JOHN D. STOKELY JR.



RANDALL G. VINSON



JAMES R. WILKINS JR.

## EAGLE FINANCIAL SERVICES, INC. ANNUAL MEETING

The annual Shareholders' meeting will be held at the Barns of Rose Hill, 95 Chalmers Court, Berryville, Virginia on **Tuesday, May 16, 2017 at 5:30 PM.**

**CORPORATE HEADQUARTERS**  
2 East Main Street, Berryville VA 22611

**CORPORATE MAILING ADDRESS**  
PO Box 391, Berryville VA 22611

## TRANSFER AGENT



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Brooklyn, NY 11219  
800.937.5449

## WEBSITE

[www.bankofclarke.com](http://www.bankofclarke.com)

## FORM 10K

A copy of the Company's 2016 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](http://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!

