



 **Eagle Financial Services, Inc.**
2021 Annual Report





Building on our legacy of service

As the pandemic became the “new normal” in 2021, we did the only thing we could do: forge ahead from both a business and a service perspective.

Significantly, we launched The Bank of Clarke County Foundation, to address the needs of charities and non-profits located in our coverage area. The Foundation awarded over \$200K in 2021 to 126 organizations, including the Shenandoah Valley Discovery Museum and Timber Ridge School.

As a further show of our ongoing community support, we partnered with Shenandoah University for our summer intern program and sponsored events like a McGruff Safety camp in Loudon County. And, through our “Give with BoCC” campaign, we raised over \$17K for local organizations.

Moving into 2022 and beyond, we are looking to expand our footprint in the market and improve our offering. This will allow us to build lifelong relationships with even more customers in Virginia.

We thank our customers for their patronage. And we would especially like to acknowledge our staff, as they continued to serve our customers to the very best of their abilities during another challenging year.



Dear Eagle Financial Services, Inc. Shareholders:

As we close the books on another tumultuous year, I could not be prouder of what we accomplished in 2021, due to the continued dedication and focus of our amazing employees. Despite significant headwinds to growth – including over \$100 million in Paycheck Protection Program (PPP) loans being paid off during the year – the Bank achieved record levels of originations and grew to \$1.3 billion, a 15.3% increase from 2020. Furthermore, this growth was matched with continued low-cost core deposit growth as we maintained a loan- to-deposit ratio in the low 80s with no reliance on borrowed funds.

Despite the continued uncertainty of COVID variants, significant labor shortages, and economic uncertainty, 2021 saw the Bank reach one of the longest lists of achievements in its 140-year history. This was accomplished alongside a very strong annual net income number of \$11.0 million, the 36th consecutive annual increase in dividend to \$1.10, and earnings per share of \$3.20.

The beginning of 2021 saw another PPP initiative and again the Bank of Clarke delivered, lending over \$32 million in PPP dollars to the community and taking the overall dollars lent to just over \$120 million, touching over 25,000 workers in our core markets. On the heels of the 3rd installment of PPP lending, we quickly shifted to the next process of the program with over \$100 million in PPP loans forgiven. Leveraging the technology that we implemented in 2020, we were able to automate the majority of the work that would have otherwise fallen to our customers. The downstream benefits to the Bank were significant as we were able to welcome over 200 new and very strong business relationships which had previously been at a host of competitors.

The Bank was awarded several accolades from the community. We were once again awarded Best Bank from Loudoun Times Mirror and received Best Financial Institution and Best Mortgage Lending from The Winchester Star Awards. The Bank also graduated another in a long list of employees from the 2021 VBA School of Bank Management. In addition, one of our executives graduated from the community leadership program through the Top of Virginia Chamber of Commerce and a Director received the 2021 Executive Leadership Award from the Loudoun County Chamber of Commerce.

As was the case in prior years, a few of our Bankers were also recognized as Top Bankers in both our Loudoun and Shenandoah markets from mortgage lending to financial services, further demonstrating our commitment to our customers and community.



Brandon Lorey
President/CEO

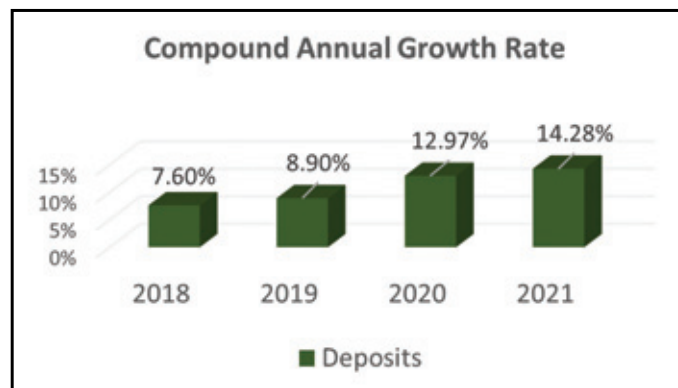
We are only as strong as the communities we serve and as such, the Bank continued its long-standing tradition of giving back and donating to the community. In 2021, through the Bank and the newly formed Bank of Clarke Foundation, the combined organization donated over \$237,000 to well-deserving charities throughout our market. Additionally, countless personal hours were donated by our employees to a multitude of organizations in desperate need of support.

Despite continuing challenges from the pandemic, the Bank was able to maintain its constant path of growth both in interest and non-interest income. With upwards of 75% of the back-office staff working remotely for much of the year and our front-line retail workers meeting the needs of the community across our branch network, we were able to successfully meet our charge of supporting our markets.

We remain encouraged by the results of continued investment in both our core and growth markets. 2021 continued to showcase the Bank's longstanding ability to fund its loans with low-cost core deposits and with no reliance on borrowed funds, even in light of additional PPP loans and record core

Results

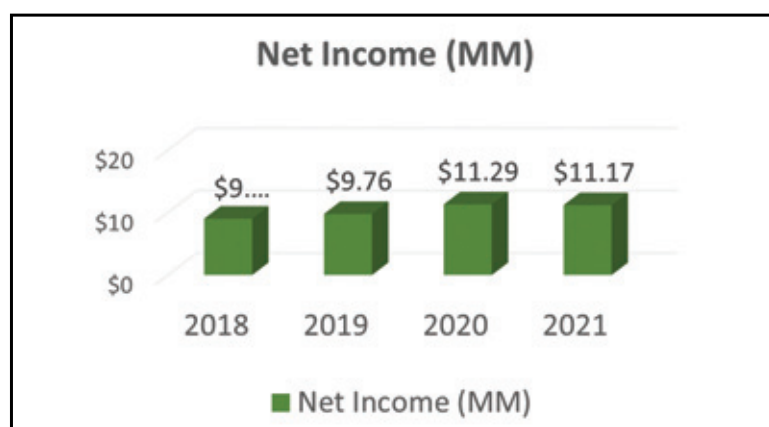
Despite all of the challenges of the year, 2021 saw success across multiple categories. Five-year loan and deposit compound annual growth rates were a record 13.98% and 14.28%, respectively, reflecting \$151 million in loan and \$164 million in new deposits ending the year at \$1.3 billion in total assets.



In 2021, returns on average assets and returns on equity were .90% and 10.19%, respectively, removing a one-time legal expense resulting from expansion into a new market area, ROA and ROE would have been 1.03% and 11.58%, respectively. The Company increased its annual dividend by \$.06 to \$1.10 per share, reflecting 36 consecutive years of increases. Earnings per share was \$3.20; this was down slightly from the prior year period, again due to our one-time charge. Through the Corporation's share repurchase program, Eagle Financial Services repurchased over 4,749 shares for \$149 thousand dollars as we continue to maximize shareholder return by optimizing the deployment of capital.



As a result of our continued growth, strong credit metrics, and expense management, and despite significant wage pressure due to the great resignation, increased allowance for loan loss, and one-time legal costs, the Company maintained its \$11M+ level of net income. a year over year net income of \$11.02 million.



BUSINESS SEGMENTS

Commercial and Retail

As was the case in 2020, our commercial lending group again realized the highest growth rates in the history of the organization – a key factor in the institution’s strong deposit performance. The Bank’s Frederick, MD office began to hit its stride towards the end of the year and our Tyson’s Loan Production Office produced over \$100MM in loans in 2021. Our mortgage group again originated over \$100MM in total loans and with our enhanced secondary team, the Bank almost doubled total mortgage fee income with similar volumes on a year over year basis. Continued investment in technology allowed the Bank to grow the online channel with a 7.3% increase in bill pay subscribers, a 12.6% increase in mobile banking users, and an 8% increase in the number of customers using our mobile deposit process in lieu of visiting a branch.

Trust and Investments

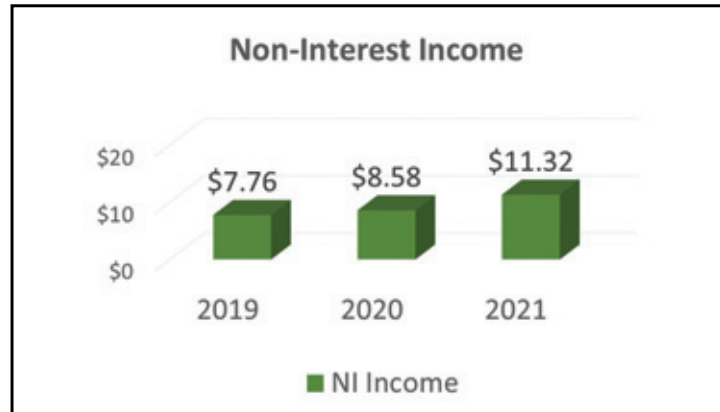
The Bank’s Trust and Financial Advisory division, Eagle Investment Group, saw a significant change in 2021 with total assets under management climbing from \$149 million at year end 2020 to over \$400 million in December 2021. We have expanded our territory into Loudoun and Fauquier Counties with the addition of two new Trust Officers, a new Division leader after the retirement of Eagle’s former EVP of Trust, and a new office in downtown Warrenton. Our Trust and Investment services continue to play a pivotal role in the organization’s success, offering financial planning and trust services throughout our customers’ financial lives. Our Eagle Investment Services representatives remained in the top 10% of all bank investment representatives utilizing the support services of Infinex, providing incremental retention opportunities for Eagle.

Marine – LV Finance

In an effort to remain granular in our lending footprint, drive non-interest income, and provide for future opportunity within the Bank, a new division was created toward the end of 2020 that became fully operational in 2021. LV Finance provides floor plan and retail lending to super-prime borrowers which provides loan yields to the Bank above its traditional lending programs. With historical losses below 20 basis points and yields above 4.65% (retail) and 5.5% (commercial), this has been built as an originate-to-sell business. In 2021, the Bank originated over \$220 million in marine assets and sold over \$120 million providing fee income to the Bank well over \$1.2 million. The remaining assets on the Bank’s balance sheet which may be held for sale over time is now providing interest income at higher levels than many of the other assets on the balance sheet. We are looking at LV-Finance to provide increasing fee and interest income to the Bank in the coming year.

Non-Interest Income

In addition to strong loan growth, the combination of efforts to expand fee income opportunities and leverage existing technologies has led to significant year-over-year increases in non-interest income. 2021 saw record levels with total other income at \$11.3 million.



THE YEAR AHEAD

As one of the oldest community banks in the state, having celebrated our 140th anniversary in 2021, it is at the core of our mission to ensure that we meet the needs of our markets at every turn. I could not be prouder of how our employees met the challenges of 2021 and turned them into opportunities for the organization. With our back-office employees on their second year of working from home and our front-line employees continuing to place the needs of our customers and community at the center of everything we do, there is no better example of an organization putting its core values first.

In 2022, we will continue to build upon the technological infrastructure that was so pivotal to our success over the past year. Now more than ever, the importance of allowing customers to interact with us through the channel that they prefer, regardless of the transaction, cannot be overstated.

At the end of the day, what differentiates us is our tradition of building lifelong relationships with our customers and communities. By leveraging the power of every connection we have at our disposal, we will become the foremost trusted partner and preferred provider of financial solutions for the communities we serve.

The focus which took us through 2021 and will carry us beyond is based on four key initiatives:

- Enhance efficiency and productivity
- Enhance revenue drivers
- Achieve maximum ROA and ROE targets
- Reinvest in employee and technology

Regardless of the macro- or micro-economic issues we face, these four strategic themes will ensure that the Company continues to make sound decisions in an unpredictable economic environment.

Finally, I would like to thank our shareholders for their confidence in the Company, its Board of Directors, the management team, and our employees. Your continued support of this organization ensures we are able to serve our wonderful communities, customers, and employees while providing shareholders with even stronger returns on their investments.

Brandon Lorey
President & CEO

BOARD OF DIRECTORS – Eagle Financial Services, Inc. & Bank of Clarke County



THOMAS T. GILPIN
Chair



ROBERT W. SMALLEY JR.
Vice Chair



TANYA C. MATTHEWS



THOMAS T. BYRD



MARY BRUCE GLAIZE



SCOTT M. HAMBERGER



BRANDON C. LOREY



JOHN R. MILLESON



CARY C. NELSON



DOUGLAS C. RINKER



JOHN D. STOKELY JR.



DR. EDWARD HILL

EXECUTIVE OFFICERS – Eagle Financial Services, Inc. (EFSI) & Bank of Clarke County (BOCC)



BRANDON C. LOREY
President/CEO
EFSI and BOCC



KATHLEEN J. CHAPPELL
EVP/Chief Financial
Officer - EFSI and BOCC



KALEY P. CROSEN
Secretary - EFSI
EVP/Chief Human Resources
Officer - BOCC



DEBRA L. PURRINGTON
EVP/Chief Fiduciary
Officer- BOCC



JOSEPH T. ZMITROVICH
EVP/Chief Banking Officer
BOCC



TODD A. BRAITHWAITE
EVP/Chief Technology
Officer - BOCC



JAMES S. GEORGE II
EVP/Chief Credit Officer
BOCC



AARON M. POFFINBERGER
EVP/Chief Risk Officer
BOCC



MARIANNE SCHMIDT
SVP Chief Marketing
Officer-BOCC

**EAGLE FINANCIAL SERVICES, INC
ANNUAL MEETING**

The annual Shareholders' meeting will be held virtually on May 17, 2022 at 10:00 AM.

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TRANSFER AGENT



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FORM 10K

A copy of the Company's 2021 Form 10K annual report to the Securities and Exchange Commission may be obtained without charge on the investor relations page of our website https://www.bankofclarke.bank/EFSI_Annual_Meetings.html or upon written request.

WEBSITE

www.bankofclarke.bank

