



ANNUAL REPORT 2017

EAGLE FINANCIAL SERVICES, INC



"Our record of unbroken annual dividend increases grew to a nationally-recognized 32 years"

LETTER TO THE SHAREHOLDERS

Once again it is my distinct privilege to bring to you as President and CEO my annual communication regarding last year's operations. I am constantly reminded of the venerability of the fifth oldest bank in the Commonwealth of Virginia. Completing your Company's 136th year of continuous service to our markets is a milestone that most banks never achieve. For that, I continue to be grateful for the support we receive from shareholders, customers and the communities in which we operate. As we add to our longevity each year, we also are experiencing recognition in our markets. We have been named the best bank in the northern Shenandoah Valley for 4 out of the last 5 years. We have also received multi-year recognitions for best mortgage lending, best commercial banking and best on-line banking in the same area*. And now, after only 7 years physically operating in our growth market of Loudoun County, we have been named the best bank in Loudoun County**. These honors are very special to us because they reflect the community acceptance of your Company and its philosophies. It also validates the efforts of a tremendously talented and energetic staff who not only perform their duties daily but are true contributors to their communities. This sincerity for all to succeed does not go unnoticed by customers and potential customers.

Being a "best" bank also reflects in our market share position. As of the latest FDIC deposit summary report (reporting deposits as of June 30, 2017 and released in October of 2017 for the 30 banks in our market) Bank of Clarke County was #1 in Clarke County in deposit share, #1 in Frederick County, #3 in the combined Frederick County/Winchester area and #11 in Loudoun County (we were #20 in Loudoun in 2015 and 14 in 2016). Even with some recent high-profile mergers in our combined market, we are a strong #7. Because of our strategic planning and positioning, we experienced an average growth in deposits and

loans of \$1 million PER WEEK in 2017.

The American Banker magazine annually ranks all the banks in the USA using as a measuring tool the average of the last three years Return on Equity (ROE) for banks. In 2017 your Company was ranked 174 out of the nearly 5,000 commercial banks. There were 12 Virginia banks in the Top 200 putting Bank of Clarke County in the top 10%.

One financial highlight of 2017 was our record net income. We ended 2017 at \$7.8 million (or \$2.24 earnings per share) which was a \$1.4 million (or 22.23%) increase over 2016 net income of \$6.4 million (or \$1.81 earnings per share).

Our record of unbroken annual dividend increases grew to a nationally-recognized 32 years with total dividends for 2017 of \$0.88., up from total dividends in 2016 of \$0.82, an increase of 6.8%. The ability to increase dividends is appreciated by our shareholders and adds to the value of our stock and the desire to hold these investments.

Since approving a stock repurchase program in June 2016, your Company has used \$3.7 million to repurchase almost 143,000 shares of EFSI. In 2017, your company bought back 52,936 shares of its Common Stock under this program, totaling \$1.6 million at an average price of \$29.54. We believe the plan increases the stock's liquidity, supports current price levels, and assists individual shareholders with selling large blocks of stock.

After years of struggling with government overreach, the banking industry is finally experiencing some relief. Senate bill 2155 passed the senate on March 14 and, as I write this, the House of Representatives is taking up the same bill. This bill will provide relief to banks such as Bank of Clarke County in several ways:

- S. 2155 institutes longer exam cycles for community banks
- It simplifies capital calculations for banks our size
- It provides relief from appraisal requirements on mortgage loans in some rural areas - - and the list goes on.

Our industry welcomes these developments as government pulls back from its overreach and starts what American Bankers CEO Rob Nichols calls "right-sizing the rules" for American banks,

*online survey conducted by the Northern Virginia Daily
**Online survey conducted by the Loudoun Times Mirror

The cover artwork of an eagle on this year's annual report was painted by Chris Wynkoop, a member of our staff.

particularly banks our size.

Cary Claytor joined your boards in December. Ms. Claytor is President of H. N. Funkhouser & Co., a petroleum products distributor serving residential, commercial, industrial and agricultural markets. A CPA, she is also a member and incoming president-elect of the Winchester Rotary Club. Ms. Claytor's experience as an accountant and as an executive of a successful corporation provides the Company managerial accounting support and leadership skills in strategic thinking. Welcome Cary!

In 2016 we created the President's Club in Loudoun County. This "club" affords our executives, financial services officers and lenders the opportunity to meet some of the movers and shakers in Loudoun and at the same time allow them to get to know us. We have had very successful get-togethers

resulting in significant new relationships and business. We purposely host these events in different parts of the county for convenience to our invitees. As an added benefit to us, great referrals have resulted from these gatherings.

Thank you for your continued support of Eagle Financial Services, Inc. and Bank of Clarke County. I want to remind everyone that the location of our shareholders' meeting this year has changed. Please refer to the back of this shareholder letter for complete details. I hope to see you there on May 15th.

Sincerely,

John R Milleson
President & CEO

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



Bank staff network with guests at Dirt Farm Brewery in Bluemont, Virginia during a President's Club event. The moment was captured by a drone.

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



CARY R. CLAYTOR



MARY BRUCE GLAZE



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 John H. Enders Fire & Rescue Company, 9 South Buckmarsh Street, Berryville, Virginia on **Tuesday, May 15, 2018 at 5:30 PM.**

CORPORATE HEADQUARTERS
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TRANSFER AGENT



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Brooklyn, NY 11219
800.937.5449

WEBSITE

www.bankofclarke.bank

FORM 10K

A copy of the Company's 2017 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.bank) 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!

