



BANK *of*
CLARKE COUNTY

EAGLE FINANCIAL
SERVICES INC
2015 ANNUAL REPORT

Dear Fellow Shareholders:

I am honored to once again bring to the shareholders of Eagle Financial Services, Inc. my report for the year ended 2015. It was another successful year, filled with milestones, growth, benchmark achievements and progress. The company's performance ranked it among the top tiers of Virginia banks.

During 2015, gross loans increased by \$25.8 million. We continue to emphasize the importance of growing the loan portfolio to all employees and are seeing successes in referrals to our experienced lenders. Concurrently, our non-performing assets (NPAs) decreased \$6.7 million in 2015, ending the year at 0.95% of total assets, a commendable performance by all. This improvement in the strength of our loan portfolio also allowed us to end 2015 with a negative (or credit) provision to the allowance for loan losses of \$250,000.00, another positive indicator of overall portfolio quality. We deem this a positive sign that borrowers are in a healthier, ever-improving economic climate, for themselves and for their businesses.

Total deposits increased in 2015 by \$46.9 million which is reflective of successes at our expanded branch network. Our ability to attract and keep lower cost deposits enabled us to achieve a net interest margin (NIM) for 2015 of 4.06%, a number well above our peer banks.

Our capital position was \$78.2 million at year-end 2015, which showed a \$20.0 million increase in capital over the last four years. This strong position allowed us to extend our dividend increase record to 29 years, with the total dividend for 2015 of \$0.80 per share.

Ever-present regulatory headwinds continue unabated. In my career, I can remember the days where compliance responsibility took, at most, a couple of hours per month. Today, the company has an extremely busy compliance and security department consisting of four full-time professionals whose job it is to interpret, implement and monitor thousands of pages of regulations that seem to grow exponentially with each government edict. Your company, like all other financial institutions, continues to pay the price for a few ill-behaved megabanks and Wall Street banks. Try as we might, we cannot convince the government that heavy-handedness through regulations across the entire banking industry is NOT the answer, particularly since we did little to contribute to the economic catastrophe that was the late 2000s. We will continue the fight.

Recognizing the untapped potential in our growth market of Loudoun County, your company embarked on an aggressive branching expansion in 2015, bringing two new branch locations online. In May of 2015, our One Loudoun branch opened at 44810 Saranac Street in Ashburn, Virginia. Bank of Clarke has exclusivity in this giant "city" called One Loudoun, with its mix of retail, commercial and residential development. Access to our branch is conveniently reached via the Loudoun County Parkway and dominates the corner that was procured with much forethought when it became available in

2014. Response has been good and we expect this branch to grow as the One Loudoun vision builds out. Kristina Reed leads the One Loudoun team as its Financial Services Officer (FSO).

Leesburg was on our radar for some time and the chance to move into an existing facility without the traditional costs associated with new construction buildout was identified in late 2014. A branch that had operated on Market Street since 1965 was being vacated by a competitor and, after several inspections, the decision was made to open a branch at 504 East Market Street. Challenges to the building delayed our estimated opening, so a temporary branch office was mobilized which allowed us to open a full 90 days sooner than if we had waited for the permanent building to be renovated. A ribbon cutting was conducted in November 2015 and the response from the greater Leesburg community has been encouraging. Our Leesburg team is led by FSO Nan Havens, who has been a banker in Leesburg for many years.

Seeing the opportunity to consolidate two branches during 2015, we made the decision to close our Round Hill branch and consolidate its customers with our Purcellville branch. The consolidation went smoothly and we were able to eliminate a leased property from our expenses with little effect on the business transferred to our full-service facility at 203 Hirst Road. Mary Liz McCauley, another Loudoun County veteran banker, supervised the consolidation and is our Purcellville FSO.

Future opportunities for branch development in Loudoun will be monitored and, if deemed appropriate, pursued.

The successes we've experienced in our extensive network of branches are reflected in our growth of deposit market share, which is reported annually by the FDIC in their Summary of Deposits release. In the last five years, Bank of Clarke County has made great gains in the amount of market share it controls. In Clarke County, market share remains dominant at 81.67% (number 1 position). Frederick County market share grew in the last five years from 25.26% (number 2 position) to 28.00% (number 1 position). Winchester market share grew from 7.09% in 2010 (number 5 position) to 8.25% in 2015 (number 3 position). However, to gauge total success we have to look at our entire market, consisting of the counties of Clarke, Frederick and Loudoun and the city of Winchester. Out of 30 banks operating in this defined geographic area, Bank of Clarke is rated #6 in market share.

As we stated in our 135th anniversary ad recently, the needs and wants of our customers are "ever-changing". For a community bank with customer demographics across the entire spectrum, it is challenging every day to offer value-added products that are in current demand as well continue to support more traditional products that certain segments of our customer base still use. We recognize the necessity of offering these newly created products and services due to constant competition. There is certainly a shift toward more electronic delivery channels. I can remember when the bank's first computer system was installed with much fanfare in 1984.

Now, our customers have options that were not even thought of 15 years ago. Need to deposit a check into your checking account? No problem – just take a picture with your smart phone and – it's deposited. No trip to a branch to break up your day. Need to transfer money from your savings to your checking account while standing in a checkout line at a store? No problem – mobile banking allows you to do that in a few short seconds. Then, the funds will be there when you use your debit card to pay for your purchases, with an EMV chip embedded in it for added security and peace of mind. Tired of keeping volumes of past statements around for reference? E-statements archive them for you, always accessible at your fingertips. This is the banking of the present – all channels available and ready for the customer to decide HOW they want to bank, WHEN they want to bank and WHERE they want to bank.

Our presence on social media continues to gain momentum. We continually communicate through facebook and twitter, taking advantage of live feeds when possible and spotlighting milestones in the life of your company, such as awards, events, employees and product focuses. We developed a youtube channel which constantly showcases past and present television commercials. The more friends, likes, subscriptions and tweets we generate, the better the vehicle for promoting your company. If you haven't already, please go to facebook and like our page, go to twitter and follow us and go to our youtube channel and subscribe.

Last year, we shared in the celebrations of four employees who retired. Roger Crozen retired on June 30, 2015 after a distinguished lending career that spanned 30 years, with the last 17 spent at Bank of Clarke County. When he retired, Roger was a Senior Vice President with your company.

Nancy Abe also retired on July 17, 2015 after a 13-year career with your company. She retired as a Vice President and played a key role in mentoring many staff lenders.

Cindy Larrick, an Assistant Vice President and Manager of our Senseny Road branch, retired in April after 13 years with the company. Dinah Krause retired as Credit Card and Merchant Services Manager in September. Dinah was with us for 13 years as well. I wish Roger, Nancy, Cindy and Dinah a very rewarding and well-deserved retirement.

Thank you for your continued support of Eagle Financial Services, Inc. and Bank of Clarke County. I want to remind everyone that our shareholders' meeting this year has changed, in day, time and location. Please refer to the yellow insert in your packet for specifics, and I hope to see you there on May 17th.

Sincerely,



John R Milleson
President and CEO



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



DALE L FRITTS
SVP/SENIOR LOAN
OFFICER, BOCC



JOHN E HUDSON
SVP/MARKETING
DIRECTOR, BOCC



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

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EAGLE FINANCIAL SERVICES, INC. AND BANK OF CLARKE COUNTY EXECUTIVE TEAM



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

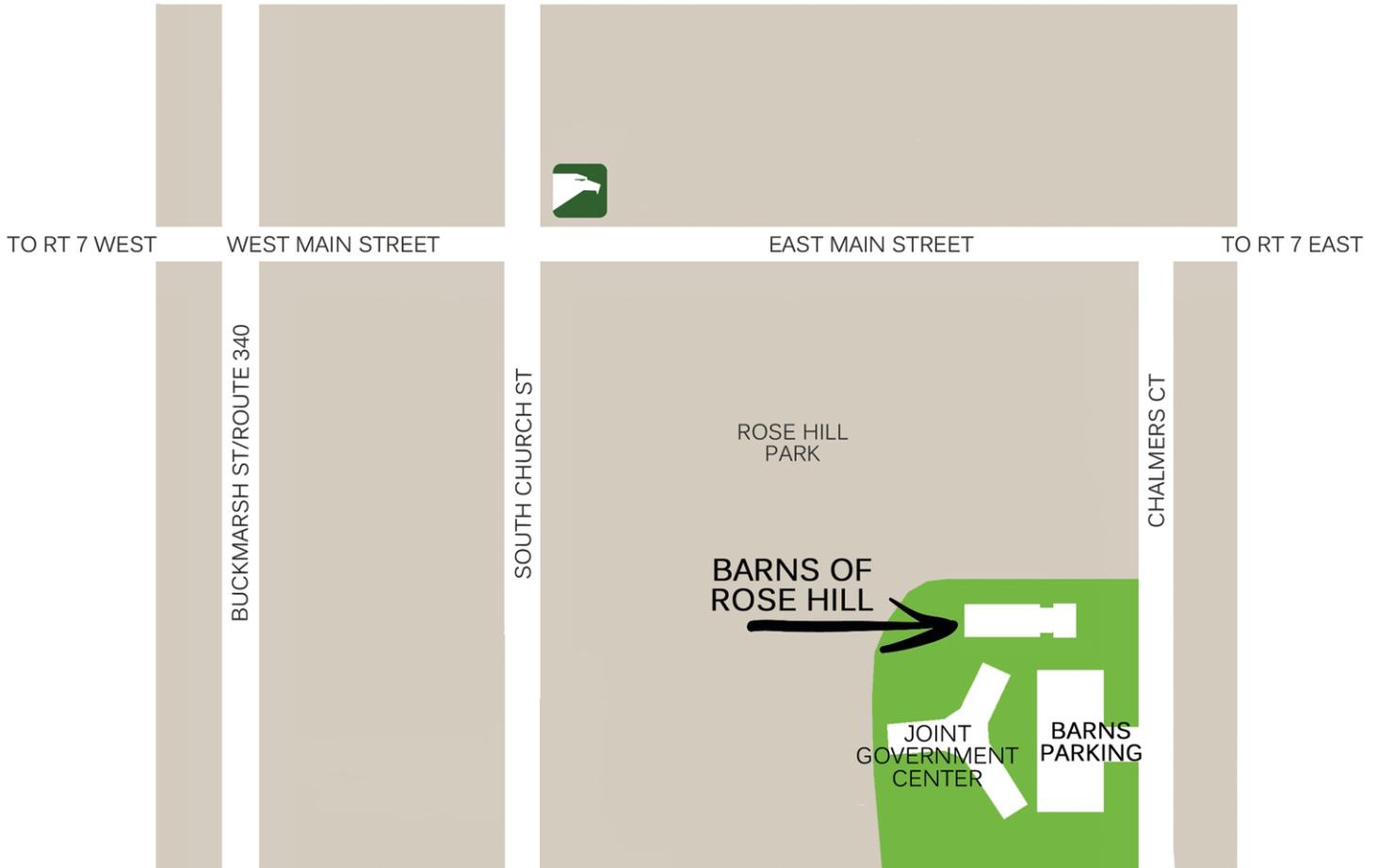


KALEY P CROZEN
SVP/HUMAN RESOURCES
DIRECTOR, BOCC



CARL A ESTERHAY
SVP/SENIOR TRUST
OFFICER, BOCC

NEW SHAREHOLDER MEETING LOCATION



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 17, 2016 at 5:30 PM.**

CORPORATE HEADQUARTERS
2 East Main Street, Berryville VA 22611

CORPORATE MAILING ADDRESS
PO Box 391, Berryville VA 22611

TRANSFER AGENT



6201 15th Avenue
Brooklyn, NY 11219
800.937.5449

WEBSITE
www.bankofclarke.com



EMAIL ADDRESS
customerservice@bankofclarke.com

FORM 10K
A copy of the Company's 2015 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.



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