Eagle Financial Services, Inc. Announces 2009 Second Quarter Financial Results and Quarterly Dividend

BERRYVILLE, Va., July 21 - Eagle Financial Services, Inc. (OTC BULLETIN BOARD: EFSI), the holding company for Bank of Clarke County, whose divisions include Eagle Investment Group, announces second quarter 2009 financial results and a quarterly dividend. The Company's common stock is listed for trading on the Over-the-Counter (OTC) Bulletin Board under the ticker symbol EFSI.

John R. Milleson, President and CEO, stated "These are still difficult times for Eagle Financial Services, Inc., the industry and our economy in general, but there are some signs of recovery, particularly in larger financial institutions and the housing market. I believe that 2009 will continue to present challenges, but the Company is determined to be even stronger after the recession than it had been before. The Bank has been in business for 128 years and it intends to continue to operate in a safe and sound manner for the benefit of its shareholders, its employees, and the communities in which it serves."

Net interest income for the quarter ended June 30, 2009 was $5.1 million which represented an increase of 4.7% when compared to $4.9 million for the same period in 2008. Although average earning assets increased $10.0 million since June 30, 2008, the increase in net interest income resulted mostly from the decline in the Company's funding costs.

Total loan interest income was $5.7 million for the quarter ended June 30, 2009, reflecting a decrease of $496,000 from the quarter ended June 30, 2008. Average loans decreased $1.2 million since June 30, 2008. Interest income from the investment portfolio was $1.2 million for the quarter ended June 30, 2009 and 2008. Average investments increased $5.2 million since June 30, 2008.

Total interest expense for the three months ended June 30, 2009 decreased $761,000 when compared to the three months ended June 30, 2008. The average cost of interest bearing liabilities decreased 83 basis points from the quarter ended June 30, 2008 to the same period in 2009. The average balance of interest bearing liabilities increased $9.4 million from the quarter ended June 30, 2008 to the same period in 2009.

The net interest margin increased from 4.12% for the quarter ended June 30, 2008 to 4.24% for the quarter ended June 30, 2009. The increase in the net interest margin was mostly attributable to the decreased cost of interest bearing liabilities.

The Company's net interest margin is not a measurement under accounting principles generally accepted in the United States, but it is a common measure used by the financial services industry to determine how profitably earning assets are funded. The Company's net interest margin is calculated by dividing tax equivalent net interest income by total average earning assets. Tax equivalent net interest income is calculated by grossing up interest income for the amounts that are non-taxable (i.e., municipal income) then subtracting interest expense. The tax rate utilized is 34%.

Provisions for loan losses were $1.1 million for the three months ended June 30, 2009, compared to $300,000 for the quarter ended June 30, 2008. Although the Company experienced a decrease in total loans since the December 31, 2008, given the level of problem loans, continued uncertainty in the economy, and the current nationwide credit crisis, the Company deemed it prudent to increase its allowance for loan losses.

Nonperforming assets increased from $2.3 million or .44% of total assets at June 30, 2008 to $4.3 million or .82% of total assets at June 30, 2009. This rise was mostly a result of the increase in non accrual loans and other real estate owned. During the second quarter of 2009, the Bank foreclosed upon real estate assets valued at $2.2 million and sold three pieces of other real estate owned recorded at $677,000. Loans greater than 90 days past due decreased from $1.3 million at June 30, 2008 to $50,000 at June 30, 2009. The Company realized $1.7 million in net charge-offs for the quarter ended June 30, 2009 versus $272,000 for the same period in 2008. Given the current economic environment, it is anticipated there could be an increase in past due loans, non performing loans and other real estate owned. However, the Company believes that the allowance for loan losses will be maintained at a level adequate to mitigate any negative impact resulting from such increases.

On July 17, 2009, the Company sold its investments in CIT Group, Inc. The Company held two bonds with a book value of $1.0 million and a fair market value of $700,000 at June 30, 2009. The Company will settle on the sale of the two bonds on July 21, 2009 and realize a loss in the amount of $486,000.

Noninterest income was $1.3 million and $2.5 million for the quarters ended June 30, 2009 and 2008, respectively. The change in noninterest income reflects a decrease of $1.2 million or 49.2%. For the quarter ended June 30, 2008, the Company had realized a $742,000 gain on the sale of a branch building. Much of the remaining decrease resulted from the decline in commissions earned from sales of non-deposit investments.

Noninterest expense was $4.1 million for the quarters ended June 30, 2009 and 2008. Despite an increase in FDIC insurance premiums of $194,000 for the quarter ended June 30, 3009 versus the same period in 2008, the Company has diligently managed and monitored its other operating expenses.

Total consolidated assets of the Company at June 30, 2009 were $522.6 million, which represents an decrease of $5.5 million or 1.1% from total assets of $528.1 million at December 31, 2008. Total loans decreased $503,000 million from $390.1 million at December 31, 2008 to $389.6 million at June 30, 2009. Considering the current interest rate and competitive market environment, the Company has been conscientious about maintaining both its underwriting standards and its net interest margin and thereby cautious about the growth it has permitted in the loan portfolio.

Total deposits, which include brokered deposits, decreased $5.3 million to $381.2 million at June 30, 2009 from $386.5 million at December 31, 2008. Brokered deposits were $5.5 million at June 30, 2009 and $25.5 million at December 31, 2008.

Securities sold under agreement to repurchase were $14.2 million at June 30, 2009 and $16.4 million at December 31, 2008. Borrowings with the Federal Home Loan Bank of Atlanta were $62.3 million at June 30, 2008 and $75.0 million at December 31, 2008.

Shareholders' equity at June 30, 2009 and December 31, 2008 was $48.6 million and $46.8 million, respectively. The book value of the Company at June 30, 2009 was $15.28 per common share. Total common shares outstanding were 3,180,899 at June 30, 2009. On July 15, 2009, the board of directors declared a $0.17 per common share cash dividend for shareholders of record as of August 1, 2009 and payable on August 14, 2009.

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to the Company's future operations and are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar import. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. For details on factors that could affect expectations, see the risk factors and other cautionary language included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, and other filings with the Securities and Exchange Commission.