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

BERRYVILLE, Va., October 27 - Eagle Financial Services, Inc. (OTC BULLETIN BOARD: EFSI), the holding company for Bank of Clarke County, whose divisions include Eagle Investment Group, announces third 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 "Our third quarter income was $790,000, down slightly from our second quarter earnings of $904,000. While these net income levels are not up to our standards, we are encouraged that we continue to be a consistently profitable and a well capitalized local bank. While no bank is immune to the downturns in the local and national economy, we are proud of our quality loan portfolio and that our strong capital levels allow us to operate without government assistance. The Bank of Clarke County remains committed to operating a conservative but progressive banking operation that is prepared for the opportunities that the future may hold."

Net interest income for the quarter ended September 30, 2009 was $5.4 million which represented an increase of 11.8% when compared to $4.8 million for the same period in 2008. This increase in net interest income resulted mostly from the decline in the Company's funding costs.

Total loan interest income was $5.8 million for the quarter ended September 30, 2009, reflecting a decrease of $368,000 from the quarter ended September 30, 2008. Average loans for the quarter ended September 30, 2009 were #389.6 million compared to $391.0 million for the same period in 2008. The tax equivalent yield on average loans for the quarter ended September 30, 2009 was 5.91%, down 40 basis points from the same time period in 2008. Interest income from the investment portfolio was $1.1 million for the quarters ended September 30, 2009 and 2008.

Total interest expense for the three months ended September 30, 3009 decreased $1.0 million when compared to the three months ended September 30, 2008. The average cost of interest bearing liabilities decreased 143 basis points when comparing the quarter ended September 30, 2009 to the same time period in 2008. The average balance of interest bearing liabilities decreased $7.7 million from the quarter ended September 30, 2008 to the same period in 2009.

The net interest margin was 4.51% for the quarter ended September 30, 2009. When compared to the quarter ended September 30, 2008, the net interest margin increased 77 basis points. This increase was attributable to the decreased balance and 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 September 30, 2009, compared to $710,000 for the quarter ended September 30, 2008. Given the level of problem loans, continued uncertainty in the economy, and the ongoing nationwide credit crisis, the Company deemed it prudent to continue to increase its allowance for loan losses.

Nonperforming assets decreased from $4.7 million or .90% of total assets at September 30, 2008 to $4.2 million or .81% of total assets at September 30, 2009. This decline resulted from the decrease in both nonaccrual and past due loans greater than 90 days. During the third quarter of 2009, the Bank foreclosed upon real estate assets valued at $473,000 and sold two pieces of other real estate owned recorded at $180,500. Loans greater than 90 days past due decreased from $688,000 at September 30, 2008 to $284,000 at September 30, 2009. The Company realized $537,000 in net charge-offs for the quarter ended September 30, 2009 versus $132,000 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.

Noninterest income was $878,000 for the quarter ended September 30, 2009. For the same time period in 2008, the Company reflected a loss in noninterest income of $1.0 million. During the third quarter of 2008, the Company recorded an impairment charge of $2.5 million related to its holdings of preferred stock by Fannie Mae and Freddie Mac.

Noninterest expense was $4.2 million and $4.1 million for the quarters ended September 30, 2009 and 2008, respectively. Despite an increase in FDIC insurance premiums of $142,000 for the quarter ended September 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 September 30, 2009 were $521.1 million, which represents an decrease of $7.1 million or 1.3% from total assets of $528.1 million at December 31, 2008. Total loans increased 2.2 million from $390.1 million at December 31, 2008 to $392.3 million at September 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 $10.9 million to $375.6 million at September 30, 2009 from $386.5 million at December 31, 2008. The Company held no brokered deposits at September 30, 2009. At December 31, 2008 brokered deposits were $25.5 million.

Securities sold under agreement to repurchase were $14.4 million at September 30, 2009 and $14.7 million at December 31, 2008. Borrowings with the Federal Home Loan Bank of Atlanta were $62.3 million at September 30, 2009 and $70.0 million at December 31, 2008.

Shareholders' equity at September 30, 2009 and December 31, 2008 was $50.7 million and $46.8 million, respectively. The book value of the Company at September 30, 2009 was $15.88 per common share. Total common shares outstanding were 3,190,304 at September 30, 2009. On October 21, 2009, the board of directors declared a $0.17 per common share cash dividend for shareholders of record as of November 2, 2009 and payable on November 16, 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.