



**EAGLE FINANCIAL
SERVICES INC**

2013 ANNUAL REPORT

Dear Fellow Shareholders:

I am proud to report that the Company achieved another year of excellent financial performance. Despite the challenges faced on many fronts, such as continued heightened regulatory requirements and uncertain economic conditions, the Company reported consolidated net income of \$7.2 million or \$2.11 earnings per basic share, a 9.3% increase from 2012. Return on average assets for the year was 1.23%. When compared to the peer return on average assets of 0.95%, the Company earned \$1.6 million more than the peer group banks.

Total assets decreased slightly from 2012, ending the year at \$586 million. Although total assets decreased, the loan portfolio grew by \$26 million to reach \$444 million at December 31, 2013. Excess cash balances were used to fund the loan growth and this transition helped lessen the negative pressure on the net interest margin. The net interest margin decreased from 4.47% in 2012 to 4.24% in 2013. Although our net interest margin experienced a decline like that of many other banks across the country, it still remains well above the peer average.

The Company did not compromise on its commitment to strong credit quality while achieving \$26 million in loan growth in 2013. Non-performing asset balances, which consist of non-accrual loans, loans past due greater than 90 days and foreclosed property, remain low. At December 31, 2013, non-performing assets totaled \$6.1 million or 1.04% of total assets. Our ability to maintain a low non-performing asset total allowed the Company to forego a loan loss provision for 2013. The Company aggressively works to reduce and eliminate these non-earning assets.

I am extremely proud of the Company's record of consistently increasing dividends for each of the past 27 years. Only a handful of banks in the USA share this distinction. In 1987, the annual dividend was \$0.06, compared to \$0.76 for 2013. This increase represents a compounded annual growth rate of 9.9%. The Company continues to receive high marks in the Davenport Community Bank Quarterly report. The ratings combine and compare banks' income performance, asset quality, liquidity and capital ratios. Our goal is to maintain a rating in the top quartile on a consistent basis. We do not seek the number 1 rating in the report because of the additional risk required to achieve the top ranking.

A report from the Mercatus Center at George Mason University tells us what we've already experienced –

that broad regulations are a burden to smaller community banks like Eagle Financial's Bank of Clarke County. Government's one-size-fits-all approach to regulations (aimed at big Wall Street banks) cause smaller banks to hire compliance personnel just to interpret and manage this increased burden. Independent Community Bankers of America Chairman Bill Loving has stated that "community banks are sinking far too many resources into unnecessary and burdensome compliance – resources that would otherwise be used to promote local economic growth". Mr. Loving goes on to say that "our nation's banking regulations must be calibrated to these institutions' size, lower risk profile and traditional business model". I couldn't agree more.

The Company has an outstanding compliance department, staffed with knowledgeable people who communicate the effects of all regulations which allow other bank employees to focus on their respective jobs at hand. The increasing demands of regulatory compliance will continue to place undue pressure on banks to grow in order to pay for the costs of complying with these regulations. For example, the new changes to the mortgage rules from the Dodd-Frank Act required a yearlong project with compliance, loan operations and lenders that significantly changed the processes and standards. I empathize with my fellow community bankers as they also incur costs related to these changes. I believe that these regulations and their related costs will force many of the smaller banks to seek merger partners.

The Company is currently in 6th position in total deposits in the Clarke-Frederick-Winchester-Loudoun market. Our expansion into Loudoun County continues to provide great opportunities to increase our market share. Part of our plans include seeking potential locations in the Leesburg area. With strong job growth and high household incomes, Loudoun County continues to be the wealthiest market in the country.

Our dedication to providing the most up-to-date products and services continued unabated in 2013. Our mobile banking service, launched in 2009, was upgraded to a more desirable product with increased intuition and functionality. Many customers have responded positively by downloading Bank of Clarke's new apps on their Apple® and Android® smart devices. Now, advanced mobile banking is available 24/7 on customers' mobile devices no matter where they are, taking convenience to a whole new level. In 2014, customers will be pleased to see additional enhancements launched as well.

2013 saw the expansion of our presence on social media channels, including Facebook, twitter and YouTube. New ways to communicate with customers and potential clients continue to develop, and the response has been encouraging. The company also added a new layer of market intelligence in 2013 that provides a much more comprehensive picture of the markets in which we operate. This significant expansion of the breadth of information available to us allows us to make more informed decisions as to markets, products and services. It also allows us to identify potential new customers with targeted information that increases the likelihood of action on their part in moving their banking relationships to us. The migration to this newer approach will slowly replace more traditional channels of communication available to the Bank as the preferences of how customers want to be contacted change.

Referrals are the lifeblood of many businesses. We value the referrals we receive from customers and shareholders. Please encourage your friends, family and neighbors to move their entire banking relationships to Bank of Clarke County.

I would like to publically thank my co-workers who work diligently for their customers and for the Company. Thank you for your continued support of Eagle Financial Services, Inc. and Bank of Clarke County. Please do not hesitate to contact me if I can be of assistance. I look forward to visiting with many of you at the Annual Shareholders Meeting on May 21, 2014 at John H. Enders Fire Hall in Berryville, Virginia.

Sincerely,

 John R. Milleson
 President and CEO

Eagle Financial Services Inc Executives

JOHN R MILLESON President/Chief Executive Officer
 JAMES W MCCARTY JR Vice President/Secretary/Treasurer
 KATHLEEN J CHAPPELL Vice President/Chief Financial Officer

Bank of Clarke County Executives



ROBERT C BOYD
 Senior Vice President/
 Senior Credit Officer



KATHLEEN J CHAPPELL
 Senior Vice President/
 Chief Financial Officer



KALEY P CROSEN
 Senior Vice President/
 Human Resources Director



DALE L FRITTS
 Senior Vice President/
 Senior Loan Officer



JOHN E HUDSON
 Senior Vice President/
 Marketing Director



JAMES W MCCARTY JR
 Executive Vice President/
 Chief Administrative Officer



JOHN R MILLESON
 President/
 Chief Executive Officer



ELIZABETH M PENDLETON
 Senior Vice President/
 Senior Trust Officer



BOARD OF DIRECTORS - Eagle Financial Services, Inc. and Bank of Clarke County

Seated, left to right - Randall G. Vinson, Robert W. Smalley, Jr. (Vice Chair), Thomas T. Gilpin (Chair), John R. Milleson (President/CEO) and Thomas T. Byrd.
Standing, left to right - Mary Bruce Glaize, Douglas C. Rinker, James T. Vickers, John D. Stokely, Jr., James R. Wilkins, Jr. and Robert E. Sevilla.

EAGLE FINANCIAL SERVICES, INC
ANNUAL MEETING
The annual Shareholders' meeting will be held at John H Enders Fire Hall, 9 South Buckmarsh Street, Berryville, Virginia on Wednesday, May 21, 2014 at 12 Noon.

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TRANSFER AGENT



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FORM 10K
A copy of the Company's 2013 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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