

unexpectedly can-do

unexpectedly wow!

unexpectedly
nimble

unexpectedly
different

unexpectedly
wow!

unexpectedly
different

unexpectedly wow!

unexpectedly nimble

unexpectedly different

unexpectedly
can-do

Earnings
Report

At Your Service Since 1852®

Burke &
Herbert
Bank

3rd Quarter
2018

To Our Shareholders, Customers & Friends

Burke & Herbert Bank posted net income of \$7.7 million for the third quarter of 2018, bringing the year-to-date total through September 30 to \$24.3 million, slightly (0.5%) below the Bank's net income for the same period in 2017. Total interest income for the quarter increased from the prior quarter, as well as the same quarter one year ago. Net interest income declined modestly, compared to both the previous quarter and the same quarter in 2017. An increase in interest expense drove these results.

Interest income for the third quarter of 2018 totaled \$28.5 million, a 2.6% increase from the previous quarter. As of September 30, year-to-date interest income totaled \$83.4 million, an increase of 4.4% over the same period in 2017. Interest and fees on loans continued as the most significant driver of the Bank's earnings. Totaling \$61.9 million at quarter-end, interest income increased by 8.5% over the year prior. Interest earned on investments decreased by 5.8% year over year; nevertheless, the investment portfolio generated revenue of \$21.5 million in the first nine months of the year.

Interest expense totaled \$4.3 million in the third quarter, an increase of 51.0% over the same quarter in 2017. Interest expense for the first three quarters totaled \$10.8 million, a year-over-year increase of 52.8%. Interest paid on deposits comprised the majority of the increase, reflecting our strategy of offering competitive rates on deposit balances, as market rates continued to rise. The Bank remains committed to being an attractive choice for personal and business banking customers with savings and investing needs. Also contributing to higher interest expense, the Bank continued to borrow from the Federal Home Loan Bank to fund loan originations. Interest paid on these borrowed funds totaled \$5.0 million through September 30, resulting in an increase of 69.5% as compared to the same nine months one year ago.

Net interest income totaled \$23.9 million in the third quarter, essentially flat to the prior quarter. Through September 30 for the year, net interest income totaled \$71.6 million, a decrease of 0.8% as compared to the same period one year ago.

Non-interest income increased throughout the first three quarters of 2018. At September 30, income generated by



the Bank's wealth services businesses totaled nearly \$3.2 million, an improvement of 8.9% over the same period one year ago. Wealth services income now has exceeded \$1.0 million for four consecutive quarters, reflecting the growing recognition and popularity of the services offered through Burke & Herbert Wealth Management and Burke & Herbert Trust Services.

The Bank's total assets stood at \$3.0 billion as of September 30, a decline of 0.8% from the prior quarter and down 3.3% year over year. Total loans, the single-largest component of earning assets, stood at \$1.8 billion, an increase of 0.6% over the year prior. New loan production has slowed considerably from the pace of the past two years, with year-to-date production in 2018 totaling \$238.5 million through September 30, a reduction of 52.1% as compared to 2017. We remain focused on growing the Bank's lending business and have multiple initiatives underway to enhance our production in both the small business and larger commercial business segments.

The quality of Burke & Herbert Bank's loan portfolio remains quite strong, with an overall quarter-end delinquency rate of only 0.61%. Non-performing loans represented only 1.15% of total loans as of September 30.

The investment portfolio stood at \$876.9 million at the end of the third quarter, 10.4% below the level one



year ago, reflecting our strategy of directing incoming cash flows provided by the investment portfolio to higher-yielding loans.

In the consumer segment, Burke & Herbert Bank continued to attract new core checking account customers who are taking advantage of the value delivered by the Bank's Convenient Checking accounts and associated banking services. The personal checking account portfolio grew by 3.8% for the year through September in terms of the number of accounts on file, and the use of Online Banking, Mobile Banking, and the Burke & Herbert Bank Visa® Debit Card increased notably as well. Likewise, income from card-related activity continues to grow. For the year to date, card income exceeded that of the prior year by 6.6%.

Checking account balances stood at \$1.1 billion as of September 30, lower than one year ago by 1.2%. Balances held in time and savings accounts dipped slightly (0.3%) from the prior quarter to stand at \$1.2 billion at quarter-end, essentially flat to the level in effect one year ago. Total deposits stood at \$2.3 billion at quarter-end, a year-over-year decrease of 0.6%.

Marketing and promotional activities in the third quarter included an integrated campaign in branches, on social media, and on the Bank's website to promote Home Equity Lines of Credit. To spur interest, the program featured a limited-time introductory fixed rate that provided qualified homeowners with a

Expand your home with a low introductory rate.

Home Equity Line of Credit

low-cost option to fulfill their borrowing needs. The successful campaign resulted in a dramatic increase in applications and closed loans.

In August, Burke & Herbert Bank celebrated its 166th year in business. To mark this special occasion, we celebrated with a Birthday Giveaway program during which customers at all branches were invited to share a birthday wish as they entered the drawing to win \$166. We were delighted to receive nearly 2,000 comments and birthday wishes from customers. We appreciate all of the kind words about the Bank and our team members, and are grateful for your continued loyalty and your business.

Celebrating 166 years in business, and holding the distinction of being the longest continuously-operating bank in the Greater Washington region would not be possible without the hard work and dedication of every member of the Burke & Herbert Bank team. We all are working to deliver an "Unexpectedly Different," and better banking experience to our customers. We are indebted to our customers and shareholders who have supported, trusted, and enabled Burke & Herbert Bank to grow and thrive. We look forward with confidence to the remainder of 2018 and beyond, and thank you for your support.

E. Hunt Burke **W. Scott McSween**
Chairman & President &
Chief Executive Officer Chief Operating Officer

Income Statement

(unaudited)

September 30,
Nine Months Ended
(in thousands)

September 30
Three Months Ended
(in thousands)

2018 2017

2018 2017

INTEREST INCOME

Interest on Investments	\$ 21,468	\$ 22,793	\$ 7,045	\$ 7,574
Interest & Fees on Loans	61,941	57,079	21,462	20,210
TOTAL INTEREST INCOME	83,409	79,872	28,507	27,784

INTEREST EXPENSE

Interest on Deposits	5,833	4,093	2,329	1,397
Interest on Repurchase Agreements	0	31	0	0
Interest on Other Borrowed Funds	5,015	2,958	1,927	1,422
TOTAL INTEREST EXPENSE	10,848	7,082	4,256	2,819

NET INTEREST INCOME BEFORE PROVISION

	72,561	72,790	24,251	24,965
Provision for Loan Losses	936	598	312	349
NET INTEREST INCOME	71,625	72,192	23,939	24,616

NON-INTEREST INCOME

Fiduciary & Wealth Management Income	3,154	2,896	1,042	975
Other Fees on Loans	472	552	171	240
Service Charges, Commissions & Fees	5,801	5,641	1,969	1,935
Income on Bank Owned Life Insurance	2,108	1,726	486	505
TOTAL NON-INTEREST INCOME	11,535	10,815	3,668	3,655

NON-INTEREST EXPENSE

Salaries & Benefits	34,838	35,031	11,818	11,371
Occupancy Expense	4,297	4,191	1,466	1,414
Other Operating Expenses	17,176	16,357	5,876	5,307
TOTAL NON-INTEREST EXPENSE	56,311	55,579	19,160	18,092

Realized Gain/(Loss) on Securities	39	25	39	25
Realized Gain/(Loss) on Foreclosed Property	173	30	0	30

NET INCOME BEFORE TAX

	27,061	27,483	8,486	10,234
Income Tax Expense	2,718	3,020	803	1,376

NET INCOME

\$ 24,343	\$ 24,463	\$ 7,683	\$ 8,858
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FINANCIAL HIGHLIGHTS

Earnings Per Share YTD	\$ 128.33	\$ 128.12	\$ 40.69	\$ 46.46
Number Of Shares Outstanding	188,460	190,676		
Dividend Per Share	\$ 58.00	\$ 54.00	\$ 20.00	\$ 18.00
Book Value Per Share	\$ 1,788.98	\$ 1,820.13		
Return On Average Assets	1.07%	1.08%		
Return On Average Equity	9.55%	9.67%		
Overhead Efficiency Ratio	66.96%	66.48%		
Gross Loans To Deposits	80.58%	79.66%		

Balance Sheet

September 30
(in thousands)

2018 **2017**

ASSETS

Cash & Due from Banks	\$ 128,796	\$ 147,846
Total Investments	876,884	978,541
Loans, Total	1,848,314	1,838,402
Reserve for Loan Losses	(17,095)	(17,671)
Loans, Net	1,831,219	1,820,731
Premises & Equipment	41,693	41,674
Other Real Estate	338	437
Other Assets	157,007	149,715
TOTAL ASSETS	\$ 3,035,937	\$ 3,138,944

LIABILITIES

Demand Deposits	\$ 634,401	\$ 607,360
Interest Checking Deposits	417,958	457,737
Time & Savings Deposits	1,241,310	1,242,596
Total Deposits	2,293,669	2,307,693
Other Borrowed Funds	380,000	450,000
Other Liabilities	25,118	34,196
TOTAL LIABILITIES	2,698,787	2,791,889

STOCKHOLDERS' EQUITY

Common Stock	3,769	3,814
Surplus	10,000	10,000
Retained Earnings	331,230	318,836
Net Income Year to Date	24,343	24,463
Accumulated Other Comprehensive Income / (Loss)	(11,210)	4,658
Common Stock Repurchased	(20,982)	(14,716)
TOTAL STOCKHOLDERS' EQUITY	337,150	347,055

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 3,035,937 \$ 3,138,944

Directors & Bank Officers

Directors

E. Hunt Burke
Chairman
Burke & Herbert Bank

S. Laing Hinson
Vice Chairman
S.L. Hinson
Associates, LLLP

Mark G. Anderson
MGAC, Inc.

Julian F. Barnwell, Jr.
Design & Production
Incorporated

Tyrone B. Bradley
Bradley/Parker &
Associates, P.C.

James M. Burke
Burke Capital Corporation

Nicholas Carosi III
Arban & Carosi, Inc.

Kathleen K. Diamond
Kathleen Diamond & Co.

Michael D. Lubeley
Walsh Colucci Lubeley
& Walsh PC

Shawn P. McLaughlin
McLaughlin Ryder
Investments, Inc.

W. Scott McSween
Burke & Herbert Bank

Jeffrey L. Stryker
Burke & Herbert Bank

Kenneth L. Wainstein
Davis Polk & Wardwell,
LLP

Executive Officers

E. Hunt Burke
Chairman & Chief
Executive Officer

W. Scott McSween
President & Chief
Operating Officer

Jeffrey L. Stryker
Senior Executive Vice
President & Cashier

Executive Vice Presidents

Terry Cole
Chief Marketing Officer

Gerald F. McQuaid
Chief Technology &
Administrative Officer

William W. Newell
Chief Lending Officer

Jeffrey A. Welch
Chief Credit Officer

Senior Vice Presidents

Joseph F. Collum
Branch & Business Banking

Emily S. Debeniotis
Human Resources

Nicholas Greksouk
Finance

Shannon B. Rowan
Trust & Wealth
Management

Principal Vice Presidents

Lester J. Bain
Corporate Security

M. Patricia Barron
Trust

Sepideh Behram
Compliance

Hilary J. Blackburn
Marketing

Joseph D. Bonaccorsy
Consumer Lending

Araba A. Brobbey
Branch Banking

Tiffany N. Craddock
Commercial Lending

Teresa M. DeMarco
Loan Operations

Nicholas J. Fitzgerald
Process and Risk
Management

Carl A. Ford
Information Technology

Yvette M. Golladay
Marketing

John W. Hill
Commercial Lending

Brett W. Kaplowitz
Commercial Lending

Daniel S. Kendle
Accounting

Joseph R. Matusek
Operations

Anne-Marie McPhillips
Product Management

Mary Ann Michniak
Audit

Debra L. Mills
Business Systems Planning

John E. Osborn
Credit

Jennifer P. Schmidt
Compliance

Catherine E. Slepitzka
Operations

Sandra N. Vasquez
Branch Banking

David F. Wallace
Sales & Service
Development

Vice Presidents

Khalil Y. Abu-Ghannam
Nancy E. Adcock

Jeffrey M. Aleshire
Daniel A. Andryszak
Penelope M. Barnett

Josefina M. Beck
Berhane H. Beraki
Dawn N. Boynton
Noemie C. Cam

Tonya L. Chappell
Walter C. Clarke
Karen M. Clinton
John D. Convery, Jr.
Erik J. Darm

Mary S. Edwards
Marco A. Erazo

Elias Y. Faddoul
John M. Gallo

Michael J. Giles
Ahmed Hachim
James W. Harper

Philip J. Harvilla
Victoria A. Hatfield

Nancy Hong
Theresa J. Hoyt
Lisa M. Humphrey
Eric C. Jones

Ramita KC
Robert G. Korman, Jr.
Edward W. Kraemer, Jr.
Brian T. Lawrence

Stephanie Lawrence
Marina Lubbers

Cheryle L. Mack
Matthew E. Markiewicz
Sheila P. McCree
Christine M. McNamara

Ann Marie Moore
Christopher R. Morgan

Amit Nagpal
Holly P. Nigh
Mauricio D. Perea
Charles A. Persico

Jane Petty
Thomas A. Riddle

Anthony B. Riolo
Noble W. Rubenstein
Cindy Y. Sanchez
Iwona Saoudi

Stephanie D. Sayles
Amy L. Schumaier

Kripa Subramanian
Henry B. Swoope, V
Christopher J. Talbert
Danielle G. Thibault

Matthew T. Tikoyan
Christopher A. Tomasino

Branches

Alexandria City

100 South Fairfax Street (Main Office)
 1705 Fern Street (Fairlington)
 1775 Jamieson Avenue (Carlyle)
 621 King Street
 306 East Monroe Avenue
 155 North Paxton Street (Landmark)

Arlington

500 23rd Street South (Crystal City)
 3020 Clarendon Boulevard

Fairfax County

8738 Cooper Road, Alexandria
 5519 Franconia Road, Alexandria
 6210 Interparcel Road, Alexandria (Kingstowne)
 2604 Sherwood Hall Lane, Alexandria
 5733 Telegraph Road, Alexandria
 4235 Annandale Road, Annandale
 9516 Old Keene Mill Road, Burke
 14122 Lee Highway, Centreville
 5705 Seminary Road, Falls Church (Skyline)
 6705 Whittier Avenue, McLean
 6200 Backlick Road, Springfield
 302 Maple Avenue West, Vienna

Falls Church

225 West Broad Street

City of Manassas

9103 Centreville Road, Manassas

Prince William County

17119 Wayside Drive, Dumfries (Southbridge)
 4605 Daisy Reid Avenue, Lake Ridge (Reid's Prospect)
 14008 Smoketown Road, Woodbridge



Alexandria City
 Prince William County
 Fairfax County
 Falls Church

City of Manassas
 Prince William County
 Arlington
 Fairfax County

Prince William County
 Arlington
 Falls Church
 Falls Church
 Alexandria City

Arlington
 City of Manassas

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