

**2019
ANNUAL
REPORT**



**Burke &
Herbert
Bank**

At Your Service Since 1852®

OUR BRAND PROMISE

At Burke & Herbert Bank, our customers are the focal point of our work. We know we must work hard to earn both their banking business and their loyalty. That's why we strive to deliver high-quality products and services designed to meet customers' banking, borrowing, and investing needs — products and services that help our customers to achieve their objectives and realize their dreams. It is why we are focused on exceeding customer expectations, making banking easy, convenient, and rewarding — for both consumers and businesses. And, it is why we will continue to provide friendly and attentive personal service, our signature for generations. When we say that we are “At Your Service,” we mean it.

OUR BRAND MISSION

We believe that delivering on this promise of putting customers and their needs first will enable us to become the bank of choice for consumers and businesses throughout northern Virginia, and at the same time, deliver strong financial results and value to our shareholders.

TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS

Burke & Herbert Bank has a long, storied history as a local community bank focused on meeting the needs of businesses and consumers throughout the region and supporting the communities in which we do business. Our steadfast commitment to our customers and to the community has served us well and remains the cornerstone of our work as we move into our 168th year in business.

The Bank has enjoyed numerous successes throughout its history and has overcome many challenges as well – recessions, depressions, world wars, and even the Civil War – to name a few. As we reflect on 2019, while we are disappointed with our earnings results overall, we are confident in our ability to overcome today’s challenges and deliver enhanced value for shareholders and customers in 2020 and beyond.

OVERVIEW OF 2019 FINANCIAL RESULTS

Net income after taxes for the twelve months ending December 31, 2019 totaled \$17.0 million, resulting in basic earnings per share of \$90.63, declining from \$34.4 million and \$181.62 per share, respectively, in 2018. Key factors contributing to the decline include a single credit loss, increased interest expense without offsetting gains in interest income, and incremental employment-related costs. In the fourth quarter, the Bank recorded a \$6.8 million credit loss driven by a single distressed loan relationship. Net interest income, the Bank’s principal source of revenue, declined by \$6.7 million (-7.0%), driven by a \$9.0 million year-over-year increase in deposit interest expense. Earnings also were dampened by an increase of \$8.9 million (11.8%) in non-interest expense over the previous year, driven primarily by higher salary and benefits expenses. Work is well underway to identify and implement strategies and programs designed to improve results in each of these areas and generate enhanced earnings.

NET INTEREST INCOME

Net interest income after provision, which totaled \$82.7 million in 2019, was dampened by the low interest rate environment that persisted throughout the year. Market interest rates, which generally experienced increases in 2018, began to decline in early 2019, and for a portion of the year, the yield curve was inverted. Given the lower rate environment, yields on new loans originated were lower than those on maturing loans. In 2019, the Bank’s loan portfolio experienced modest growth of 1.7% year-over-year. Also in 2019, the size of the Bank’s investment

portfolio was reduced as part of our strategy to decrease institutional borrowings. The resulting lower pool of interest-bearing assets, combined with lower average returns on the Bank’s loans and investments, resulted in lower levels of interest income.

Market interest rates and customer preferences had a significant impact on the increase in deposit interest expense. A large portion of the increase in deposit interest expense was driven by higher rates paid by the Bank on Certificates of Deposit (“CD”) and money market accounts in response to Federal Reserve Bank interest rate hikes in 2018 and the resulting increased competition for deposits. When the Federal Reserve began reducing rates in 2019, a portion of the Bank’s CD portfolio carried what were then above-market rates that the Bank was obligated to pay until the maturity dates of the CDs. In addition, in 2018 and continuing in 2019, many of our customers shifted balances from zero- or low-interest rate checking accounts to higher-rate money market accounts, contributing to the increase in the Bank’s cost of funds. In the latter part of 2019, the Bank was able to reduce rates paid on deposits and, by the end of the year, interest expense trends were moving in a favorable direction.



NON-INTEREST INCOME

Reaching \$18.4 million in 2019, non-interest income experienced a 4.9% increase over 2018. This year's non-interest income was boosted by \$3.2 million in security gains, which compares favorably to the \$397 thousand realized in 2018. The increase in security gains was offset partially by a year-over-year decrease in income from Bank-Owned Life Insurance of \$2.1 million. Most other components of non-interest income experienced modest improvement over 2018.

NON-INTEREST EXPENSE

Non-interest expense for 2019 was \$84.4 million, an increase of 11.8% on a year-over-year basis. Accounting for the majority of this increase were salaries and benefits, ahead of the prior year by \$6.6 million. A significant portion of the rise in this category is related to the leadership transition that took place this past year. Additionally, in the fourth quarter, the Bank recorded a \$1.4 million reserve for the unfunded portion of the distressed credit discussed previously. This reserve also contributed to the overall increase in non-interest expense.

BALANCE SHEET METRICS

Total assets at December 31, 2019 were \$2.9 billion, a 4.7% decline when compared to year-end 2018. The decline resulted primarily from our decision to reduce outstanding institutional borrowing, with funding provided through deposit growth and a reduction in the size of the Bank's investment portfolio. In 2019, the loan portfolio grew by 1.7% on a year-over-year basis, while the investment portfolio declined by 19.0% to \$700.0 million. The deposit portfolio grew by \$86.9 million, or 3.8%, to end the year at \$2.4 billion. As a result of this deposit growth



and investment sales, the Bank was able to reduce its institutional borrowing from the Federal Home Loan Bank by \$245 million. At December 31, 2019, the Bank had equity capital of \$353.5 million, a 2.2% increase over year-end 2018.

DIVIDENDS

In 2019, the Board declared dividends totaling \$80.00 per share, equaling the amount paid in 2018. Despite the year-over-year decline in net income, the Board believes the 2019 dividend was appropriate, given the Bank's strong capital position and forecast of future earnings. At December 31, 2019, the Bank maintained a Tier 1 Leverage Ratio of 12.3% and a Tier 1 Capital Ratio 16.5%, both of which are significantly above the 5.0% and 8.0% ratios a commercial bank must maintain to be classified as *Well Capitalized* in accordance with regulatory requirements.

LEADERSHIP TRANSITION

One of the most notable events of 2019 for the Bank was the completion of succession planning work and implementation of the leadership transition, which was designed to help us meet the shared goal of long-term, continued success for Burke & Herbert Bank. Following more than ten years of service to the Bank, W. Scott McSween, who served as our President & Chief Operating Officer and more recently as our Chief Executive Officer, retired as of December 31, 2019. We are grateful to Mr. McSween for his contributions to the Bank's success during the past decade and appreciate his many years of leadership, commitment, and dedicated service to the Bank and the communities it serves. You have our assurance that in our new leadership roles we too remain focused on the exceptional delivery of our "At Your Service" Brand Promise and committed to taking the Bank forward successfully into the next decade.



E. Hunt Burke, *Chairman of the Board*

THE PATH FORWARD

In the fall of 2019, the Bank's management team developed, and the Board approved, a comprehensive Strategic Plan for the next three years with the primary goal of enhancing shareholder value. The Plan outlined the following key objectives:

- Enhancing efficiency in revenue generation
- Delivering excellence in the customer experience
- Efficient management of risk
- Improving organizational efficiency
- Enhancing the team member experience

Work already is underway on each of these initiatives and, while there is much more to be done, we are confident that they will help put the Bank on a path to becoming one of the top performing community banks, not only in Northern Virginia, but in the entire country.

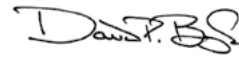
BECOMING THE "BANK OF CHOICE"

We are thrilled to be on this journey together and look forward to delivering on our mission of becoming the "Bank of Choice". You have our commitment that we will continue to work hard to earn your trust, loyalty, and confidence. On behalf of the entire Burke & Herbert Bank team, thank you for your support.

Sincerely,



E. Hunt Burke
Chairman of the Board



David P. Boyle
President & Chief
Executive Officer

MEET DAVID P. BOYLE

President & Chief Executive Officer

As we begin a new decade, we have new leadership at Burke & Herbert Bank. On June 3, 2019, Burke & Herbert Bank welcomed David P. Boyle as President & Chief Operating Officer. Following the retirement of W. Scott McSween at year-end, Mr. Boyle was appointed President & Chief Executive Officer and elected to the Board of Directors. E. Hunt Burke, the great, great grandson of one of the Bank's founding partners, remains the Bank's Chairman.

Mr. Boyle is a CPA and brings more than 30 years of banking and financial services management experience to Burke & Herbert Bank, most recently serving as Executive Vice President and Chief Financial Officer at Orrstown Bank, a \$2.4 billion community bank headquartered in Shippensburg, Pennsylvania. Prior to that role, he served as the Chief Performance Officer at PNC Financial Services in Pittsburgh, Pennsylvania. Previously, he held several other executive leadership positions at PNC and its predecessors.

"I am honored to have been selected to lead the Bank forward into the next decade," said Mr. Boyle. "Right from the start, it has been clear to me that Burke & Herbert Bank is a special place. It feels like family!" He added, "I appreciate the warm welcome from the Board, the Burke & Herbert Bank team, and the community. I am excited about our future and committed to being *At Your Service*."



David P. Boyle, President & Chief Executive Officer

BALANCE SHEET

December 31, (in thousands)	2019	2018
ASSETS		
Cash & Due from Banks	\$ 83,747	\$ 101,880
Total Investments	699,694	864,206
Loans, Total	1,885,171	1,852,866
Reserve for Loan Losses	(24,201)	(17,321)
Loans, Net	1,860,970	1,835,545
Premises & Equipment	41,188	42,460
Other Real Estate	0	338
Other Assets	180,340	162,280
TOTAL ASSETS	\$ 2,865,939	\$ 3,006,709
LIABILITIES		
Demand Deposits	\$ 621,424	\$ 618,527
Interest Checking Deposits	386,617	425,051
Time & Savings Deposits	1,385,971	1,263,493
Total Deposits	2,394,012	2,307,071
Other Borrowed Funds	75,000	320,000
Other Liabilities	43,399	33,775
TOTAL LIABILITIES	2,512,411	2,660,846
STOCKHOLDERS' EQUITY		
Common Stock	3,739	3,762
Surplus	10,032	10,000
Retained Earnings	346,515	327,095
Net Income Year to Date	16,978	34,388
Accumulated Other Comprehensive Income / (Loss)	1,426	(7,344)
Common Stock Repurchased	(25,162)	(22,038)
TOTAL STOCKHOLDERS' EQUITY	353,528	345,863
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 2,865,939	\$ 3,006,709

The Bank's transfer agent is: American Stock Transfer (AST), 6201 15th Avenue, Brooklyn, NY 11219.

Visit AST online at astfinancial.com or call 1-888-509-4619.

To request a copy of Burke & Herbert Bank's audited financial statements, please call us at 703-684-1655.

INCOME STATEMENT

December 31, Twelve Months Ended (in thousands)

2019

2018

INTEREST INCOME

Interest on Investments	\$ 25,952	\$ 28,594
Interest & Fees on Loans	84,496	82,576
TOTAL INTEREST INCOME	110,448	111,170

INTEREST EXPENSE

Interest on Deposits	17,572	8,612
Interest on Other Borrowed Funds	3,884	6,863
TOTAL INTEREST EXPENSE	21,456	15,475

NET INTEREST INCOME BEFORE PROVISION

Provision for Loan Losses	6,243	1,148
NET INTEREST INCOME AFTER PROVISION	82,749	94,547

NON-INTEREST INCOME

Fiduciary & Wealth Management Income	4,254	4,223
Service Charges, Commissions & Fees	8,988	8,792
Net Gains on Securities	3,192	397
Income on Bank Owned Life Insurance	1,913	4,053
Other	41	63
TOTAL NON-INTEREST INCOME	18,388	17,528

NON-INTEREST EXPENSE

Salaries & Benefits	52,929	46,305
Occupancy Expense	6,527	5,797
Other Operating Expenses	24,958	23,405
TOTAL NON-INTEREST EXPENSE	84,414	75,507

NET INCOME BEFORE TAX	16,723	36,568
Income Tax Expense	(255)	2,180

NET INCOME	\$ 16,978	\$ 34,388
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FINANCIAL HIGHLIGHTS

Basic Earnings per Share	\$ 90.63	\$ 181.62
Number of Shares Outstanding	186,958	188,100
Dividend per Share	\$ 80.00	\$ 80.00
Book Value per Share	\$ 1,890.95	\$ 1,838.72
Return on Average Assets	0.58%	1.14%
Return on Average Equity	4.79%	10.12%
Overhead Efficiency Ratio	81.09%	67.08%
Gross Loans to Deposits	78.68%	80.25%

MEET THE TEAM



Paul G. Brown
*Senior Vice President
Commercial Banking*



Terry Cole
*Executive Vice President
Chief Marketing Officer*



Joseph F. Collum
*Executive Vice President
Director, Branch &
Business Banking*



Emily S. Debeniotis
*Senior Vice President
Director, Human Resources*



Nicholas Greksouk
*Senior Vice President
Finance*



Gerald F. McQuaid
*Executive Vice President
Chief Technology &
Administrative Officer*



Shannon B. Rowan
*Executive Vice President
Director of Wealth
Management & Trust Services*



Jeffrey L. Stryker
*Senior Executive Vice
President & Cashier*



Jeffrey A. Welch
*Executive Vice President
Chief Credit Officer*

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

Katherine D. Bonnafé
Combined Creative, LLC

David P. Boyle
Burke & Herbert Bank

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.

Jose D. Riojas
Jose D. Riojas, LLC

Jeffrey L. Stryker
Burke & Herbert Bank

Kenneth L. Wainstein
Davis Polk & Wardwell LLP

EXECUTIVE OFFICERS

David P. Boyle
President &
Chief Executive Officer

Jeffrey L. Stryker
Senior Executive Vice
President & Cashier

EXECUTIVE VICE PRESIDENTS

Terry Cole
Chief Marketing Officer

Joseph F. Collum
Branch & Business Banking

Gerald F. McQuaid
Chief Technology &
Administrative Officer

Shannon B. Rowan
Trust & Wealth Management

Jeffrey A. Welch
Chief Credit Officer

SENIOR VICE PRESIDENTS

Paul G. Brown
Commercial Banking

Emily S. Debeniotis
Human Resources

Nicholas Greksouk
Finance

PRINCIPAL VICE PRESIDENTS

Jeffrey M. Aleshire
Commercial Real
Estate Lending

M. Patricia Barron
Trust

Sepideh Behram
Compliance

Hilary J. Blackburn
Marketing

Joseph D. Bonaccorsy
Consumer Lending

Araba A. Brobbey
Branch Banking

Derrick M. Copeland
Corporate Security

Teresa M. DeMarco
Loan Operations

Mary S. Edwards
Commercial Credit

Nicholas J. Fitzgerald
Process and Risk Management

Carl A. Ford
Information Technology

John M. Gallo
Marketing

Yvette M. Golladay
Marketing

John W. Hill
Commercial &
Industrial Lending

Brett W. Kaplowitz
Commercial Real
Estate Lending

Ramita KC
Branch Banking

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

Leonid Rann
Commercial &
Industrial Lending

Alexis F. Santin
Treasury Management

Jennifer P. Schmidt
Compliance

Catherine E. Slepitz
Operations

Henry B. Swoope, V
Private Banking

Sandra N. Vasquez
Branch Banking

David F. Wallace
Learning & Development

VICE PRESIDENTS

Khalil Y. Abu-Ghannam

Nancy E. Adcock

Daniel A. Andryszak

Ashkan Ashjodi

Penelope M. Barnett

Josefina M. Beck

Berhane H. Beraki

Dawn N. Boynton

Kenneth G. Brown

Noemie C. Cam

Tonya L. Chappell

Travis H. Clarke

Walter C. Clarke

Karen M. Clinton

Ivan C. Colov

John D. Convery, Jr.

Andrea J. Cordray

Erik J. Darm

Fatima Z. El-Hilali

Marco A. Erazo

Nancy M. Espeland

John A. Eubank

Elias Y. Faddoul

Michael J. Giles

Ahmed Hachim

Justin D. Hall

James W. Harper

Philip J. Harvilla

Victoria A. Hatfield

Ryan N. Haussmann

Lenny X. Hesser

James I. Holmes

Nancy Hong

Adriana C. Johnson

Shon B. Koly

Robert G. Korman, Jr.

Edward W. Kraemer, Jr.

Brian T. Lawrence

Stephanie Lawrence

Marina Lubbers

Cheryle L. Mack

Vicki Y. Madden-Jackson

Matthew E. Markiewicz

Sheila P. McCree

Christine M. McNamara

Ann Marie Moore

Christopher R. Morgan

Amit Nagpal

Holly P. Nigh

Hector D. Ochoa

Mauricio D. Perea

Charles A. Persico

Jane Petty

Elizabeth L. Ray

Anthony B. Riolo

Noble W. Rubenstein

Matthew W. Rucker

Sue E. Ruiz

Cindy Y. Sanchez

Iwona Saoudi

Amy L. Schumaier

Kripa Subramanian

Erica K. Swanton

Christopher J. Talbert

Matthew T. Tikoyan

John A. Tomasello

Christopher A. Tomasino

Gary L. Wolcott

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

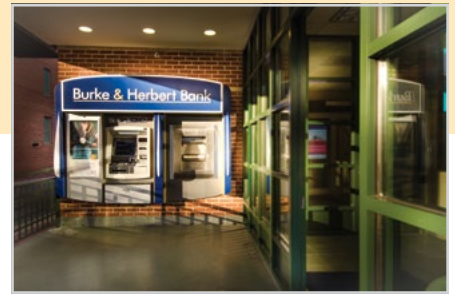
CITY OF MANASSAS

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







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