

2020 1ST QUARTER EARNINGS REPORT



**Burke &
Herbert
Bank**

At Your Service Since 1852®

TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS

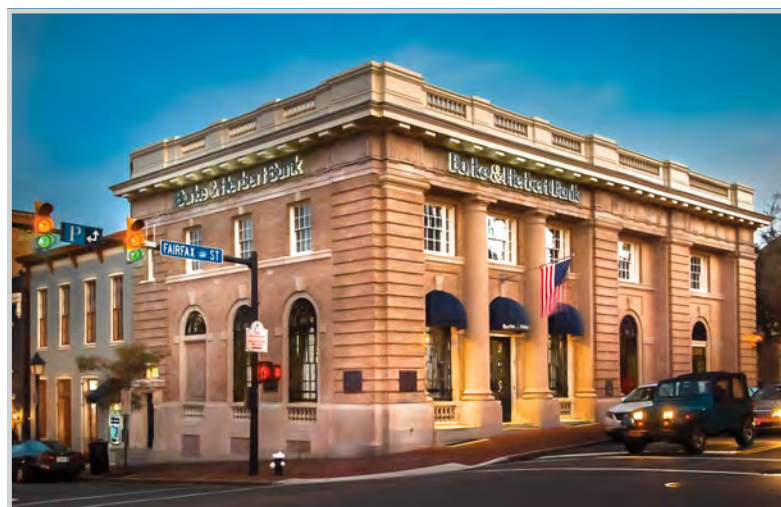
For most of the first quarter of 2020, we were operating in a “normal” environment, focused on meeting the banking, borrowing, and investment needs of our customers and working on strategic initiatives designed to enhance and grow the Bank and deliver value to shareholders and customers. By the end of the quarter, however, we found ourselves in an environment that is far from normal, as the impacts from the coronavirus outbreak and resulting economic downturn began to materialize.

Our attention turned to efforts to ensure the health and safety of our team members and customers while continuing to provide needed services to businesses and consumers. The Bank began handling payment deferral requests and offering other assistance to borrowers facing unexpected financial challenges. We also quickly organized and shifted resources to support our hard-hit small- and mid-sized business customers, participating in the Small Business Administration’s (SBA) Paycheck Protection Program. In less than two weeks, we received more than 1,000 applications for the SBA program.

The results of operations for the first quarter of 2020 were positive, with net income reaching \$6.9 million. Compared to the fourth quarter of 2019, earnings improved notably and exceeded our forecast. When compared to the same quarter the year prior, however, net income declined by \$1.5 million, driven primarily by a larger provision for loan loss expense as a result of additional stress expected in our loan portfolio related to the COVID-19 economic impact.

Net interest income, the key driver of the Bank’s earnings, declined by \$1.7 million (-7.3%) year-over-year. The decline was driven by lower levels of investment interest income (-25.8%) and, to a lesser extent, a decline in interest and fees on loans (-3.9%). The Bank’s investment portfolio stood at \$788.2 million as of March 31, 2020, \$48.9 million less than at the same time the prior year. Conversely, the Bank’s loan portfolio grew modestly, ahead of the same time the year prior by \$28.8 million (+1.5%). Lower rates on new loan originations over the past 12 months resulted in compressed yields on the loan portfolio, resulting in the modest year-over-year interest income decline.

The interest income decline was partially offset by reduced interest expense (-\$1.0 million or 20.1%) as a result of lower expense levels on borrowings from the Federal Home Loan Bank. Deposit interest expense at \$3.7 million for the quarter was consistent with the same quarter of 2019. The



Bank’s deposits grew in the first quarter by \$127 million to \$2.5 billion or 5.4%. Although all segments of the deposit portfolio experienced increases when compared to the first quarter of 2019, 85.0% of the growth occurred in time and savings deposits. The Bank continues to manage deposit rates and the resulting interest expense to ensure appropriate alignment with market rates and the Bank’s funding needs.

Non-interest income reached \$5.8 million for the three months ended March 31, 2020, improving by 8.0% from the same three months of 2019. Increases were achieved in all key non-interest income categories, with the largest increase (+111.3%) realized in other fees on loans, driven by mortgage banking activities. Income on bank owned life insurance was ahead of the same quarter last year by 25.9%, as a result of the purchase of \$10 million of additional insurance in December 2019. Fee income associated with deposit accounts and related services improved by 7.4% from the first quarter of 2019, resulting from growth in accounts and fee increases implemented at the beginning of the new year. And despite the challenging market

environment in the first quarter of 2020, our combined wealth services businesses posted a 5.3% gain in fee income from the same quarter last year, reaching \$1.1 million for the first quarter.

Non-interest expense of \$17.7 million for the quarter reflected a 6.6% (-\$1.3 million) improvement when compared to the same quarter in 2019. Approximately one-half of the improvement was realized in salaries and benefits expense which declined by 4.8%, resulting from efficiencies in the Bank's organizational structure. A variety of other cost saving measures were implemented as well, leading to decreases in other operating expenses. Our cost reduction initiatives are expected to yield additional savings throughout the year when compared to 2019.

The Bank ended the first quarter with total assets of \$3.1 billion, representing growth of \$120.7 million or +4.0% compared to the same time last year. Since year-end 2019, the Bank's assets have increased by 9.0%. The loan portfolio was virtually unchanged since December 31, 2019 due to challenging market conditions while the investment portfolio grew by 12.7% over the same time horizon.

Burke & Herbert Bank remains very well capitalized. As of March 31, 2020, the Bank's equity capital stood at \$356.3 million, substantially above all regulatory requirements. In April, the Board of Directors declared a quarterly dividend

of \$20 per share, consistent with the amount paid in each of the prior three quarters. The expected economic impacts from the COVID-19 shutdown will be challenging and may well have a negative impact on asset quality and future earnings. Capital management will be a top priority of the Bank, and while we expect to continue to maintain well capitalized status, earnings and, consequently, dividends may experience some volatility over the coming quarters.

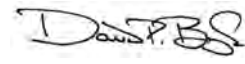
While these are difficult and unprecedented times, there are heroes all around us, in our local communities, and right here at Burke & Herbert Bank who are working tirelessly to help. The coronavirus pandemic may have changed the way that we do business, but it has not changed our commitment to our "At Your Service" Brand Promise. This is America, we are strong and we will get through this together.

Thank you for continuing to place your trust and confidence in Burke & Herbert Bank.

Sincerely,



E. Hunt Burke
Chairman of the Board



David P. Boyle
President & Chief
Executive Officer



BALANCE SHEET

As of March 31 (in thousands)

2020

2019

ASSETS

Cash & Due from Banks	\$ 243,707	\$ 107,146
Total Investments	788,224	837,098
Loans, Total	1,890,381	1,861,540
Reserve for Loan Losses	(20,423)	(17,548)
Loans, Net	1,869,958	1,843,992
Premises & Equipment	40,199	41,775
Other Real Estate	0	338
Other Assets	182,168	173,219

TOTAL ASSETS

\$ 3,124,256

\$ 3,003,568

LIABILITIES

Demand Deposits	\$ 633,319	\$ 620,027
Interest Checking Deposits	423,142	417,348
Time & Savings Deposits	1,447,045	1,338,920
Total Deposits	2,503,506	2,376,295
Other Borrowed Funds	225,000	230,000
Other Liabilities	39,475	44,551

TOTAL LIABILITIES

2,767,981

2,650,846

STOCKHOLDERS' EQUITY

Common Stock	3,728	3,748
Surplus	10,061	10,000
Retained Earnings	359,771	357,740
Net Income Year to Date	6,901	8,440
Accumulated Other Comprehensive Income / (Loss)	2,140	(3,092)
Common Stock Repurchased	(26,326)	(24,114)

TOTAL STOCKHOLDERS' EQUITY

356,275

352,722

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY

\$ 3,124,256

\$ 3,003,568

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

March 31, Three Months Ended (in thousands)

2020

2019

INTEREST INCOME

Interest on Investments	\$ 5,588	\$ 7,533
Interest & Fees on Loans	20,187	21,001
TOTAL INTEREST INCOME	25,775	28,534

INTEREST EXPENSE

Interest on Deposits	3,662	3,671
Interest on Other Borrowed Funds	503	1,542
TOTAL INTEREST EXPENSE	4,165	5,213

NET INTEREST INCOME BEFORE PROVISION

Provision for Loan Losses	21,610	23,321
	2,087	237
NET INTEREST INCOME AFTER PROVISION	19,523	23,084

NON-INTEREST INCOME

Fiduciary & Wealth Management Income	1,090	1,035
Service Charges, Commissions & Fees	1,992	1,855
Net Gains on Securities	1,943	1,930
Income on Bank Owned Life Insurance	584	464
Other	205	97
TOTAL NON-INTEREST INCOME	5,814	5,381

NON-INTEREST EXPENSE

Salaries & Benefits	11,401	11,979
Occupancy Expense	1,442	1,554
Other Operating Expenses	4,906	5,476
TOTAL NON-INTEREST EXPENSE	17,749	19,009

NET INCOME BEFORE TAX

7,588

9,456

Income Tax Expense

687

1,016

NET INCOME

\$ 6,901

\$ 8,440

FINANCIAL HIGHLIGHTS

Basic Earnings per Share	\$ 36.95	\$ 44.94
Number of Shares Outstanding	186,404	187,397
Dividend per Share	\$ 20.00	\$ 20.00
Book Value per Share	\$ 1,911.30	\$ 1,882.22
Return on Average Assets	0.93%	1.15%
Return on Average Equity	7.77%	9.86%
Overhead Efficiency Ratio	64.72%	66.23%
Gross Loans to Deposits	75.51%	78.34%



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