

second  
quarter  
earnings  
report

twenty  
19

# Better

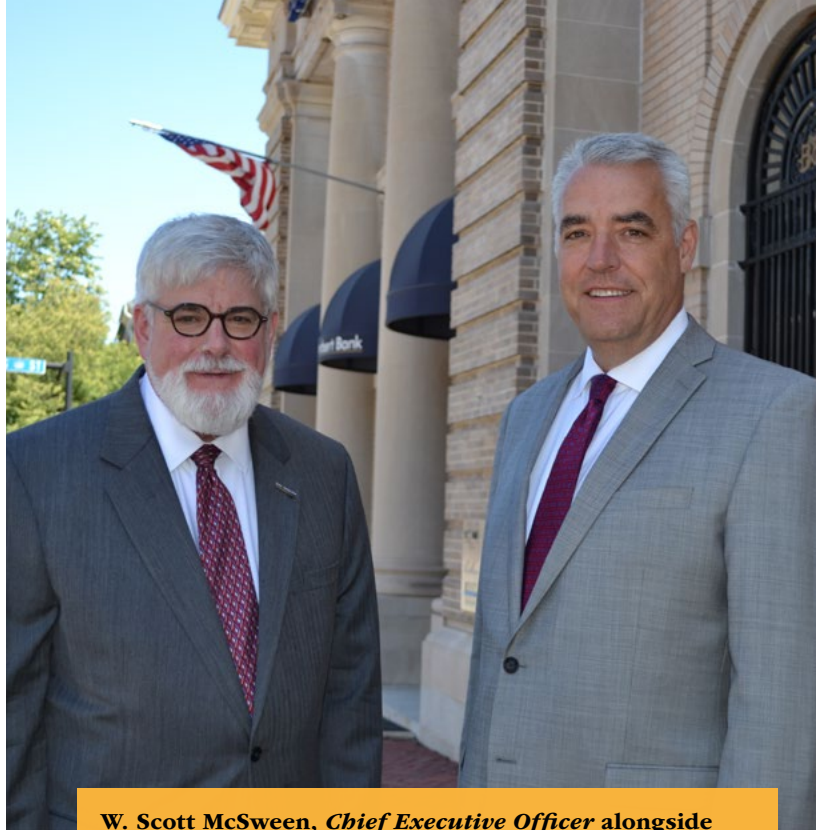
*Life's a Little Better with Burke & Herbert Bank*

**Burke &  
Herbert  
Bank**

At Your Service Since 1852®

# To Our Shareholders, Customers & Friends

*As we enter the second half of 2019, we are pleased to share news of changes among the executive leadership of Burke & Herbert Bank. This represents the culmination of succession planning completed over the course of the last two years. On June 3, David P. Boyle joined Burke & Herbert Bank in the role of President & Chief Operating Officer.*



**W. Scott McSween, Chief Executive Officer alongside David P. Boyle, President and Chief Operating Officer**

Concurrently, W. Scott McSween became the Chief Executive Officer. In January 2020, Mr. McSween will retire from the Bank and David Boyle will become the Chief Executive Officer. Hunt Burke will continue to serve as Chairman of the Board of Directors. David brings over 30 years of banking experience to his new position, most recently having served as Executive Vice President and Chief Financial Officer at Orrstown Bank in Shippensburg, Pennsylvania. He also served in senior roles at PNC Bank, National City Bank, and Wayne Bancorp, and worked at two Certified Public Accounting firms. We are delighted to have David aboard, and hope you will join us in welcoming him to the Burke & Herbert Bank family.

The Bank's net income for the first half of 2019 was \$13.8 million, \$2.8 million or 16.8% below the Bank's income during the same period one year ago. Earnings per share through June 30 declined \$13.79 from the corresponding point in 2018 to \$73.85.

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For the first half of 2019, the Bank's income from interest and fees on loans reached \$42.1 million, representing an increase of \$1.7 million or 4.1% over the year prior, while income earned from our investment portfolio declined by \$175 thousand or 1.2%. Total interest

income reached \$56.4 million for the first half of the year, an increase of nearly \$1.5 million or 2.7% as compared to the same period in 2018.

Total interest expense increased by \$4.5 million or 68.9% as a result of the rising rates and intense competition for deposits during the past year. To retain balances and attract new deposits, the Bank employed a strategy of offering highly-competitive rates on select Certificate of Deposit and Money Market accounts. Interest paid on deposits through June totaled \$8.4 million, exceeding the amount paid through the middle of 2018 by 140.3%. This increase was mitigated to a degree by a reduction of \$374 thousand in interest paid on funds borrowed from the Federal Home Loan Bank. Net interest income for the first half of 2019 totaled \$44.8 million, representing a decrease of 6.1% as compared to the same period one year ago.

Non-interest income in the first half of 2019 declined by \$713 thousand or 9.1% from the prior year, driven by a decline in income on Bank Owned Life Insurance. Thus far in 2019, the Bank has realized a \$3.0 million gain on the sale of investment securities.

Non-interest expense increased by 5.4% when compared to the second quarter of 2018, led by an increase of \$1.5 million or 6.5% in salaries and benefits. A contributing factor is the region's highly competitive labor market. We continue to face the challenge of offering attractive levels of compensation to fill positions required to support the Bank's ongoing growth.

Standing at \$1.88 billion as of June 30, the Bank's loan portfolio increased 0.9% when compared to the prior quarter, and decreased 0.6% when compared to the same quarter of the prior year. At mid-year, the Bank's total assets stood at \$2.94 billion, having dipped by 2.1% from the prior quarter, and 3.3% below the level held at the same point in 2018.

The Bank's lending business picked up considerably in the first six months of 2019. New loan production, comprised primarily of commercial loans, totaled \$118.2 million in the second quarter alone, marking the highest level of quarterly production in two years. Year-to-date loan production totaled \$192.3 million as of June 30. We have continued to build our commercial banking team with the addition of new Relationship Managers and supporting staff, and are well positioned to capitalize on new commercial lending opportunities during the remainder of 2019 and beyond.

The Bank also is well prepared to achieve growth in the small business segment. We began offering new loans and lines of credit designed specifically to meet the needs of small businesses and created new processes to deliver the quick loan decisions that small business owners want. Additional small business lending enhancements are underway and planned for implementation in the coming six months.

The quality of the Bank's loan portfolio continues to be excellent. Delinquent loans as of June 30 represented only 0.13% of total loans, representing a decrease from 0.51% in the prior quarter (in and of itself, a solid result). Non-performing loans also remained in check, having improved from 1.31% in the first quarter to stand at 0.99% of total loans as of June 30.

Deposit balances totaled \$2.40 billion as of June 30, \$68.5 million or 2.9% above the level in effect one year ago. The promotion of special rates on select Certificate of Deposit and Money Market accounts supported the attraction of incremental deposits and customers. Throughout the year thus far, depositors have been shifting funds from lower- to higher-yielding accounts at an ever-increasing pace. Overall deposits in checking accounts have decreased by \$78.6 million or 7.2% since one year ago, to stand at \$1.01 billion on June 30. Despite this decline, no- or low-cost checking balances continue to account for a material share (i.e., 42.0%) of the Bank's deposit portfolio. The decline in checking deposits has been more than offset by increased time and savings account deposits, which have risen by

\$147.1 million or 11.8% year over year, to stand at nearly \$1.39 billion as of June 30.

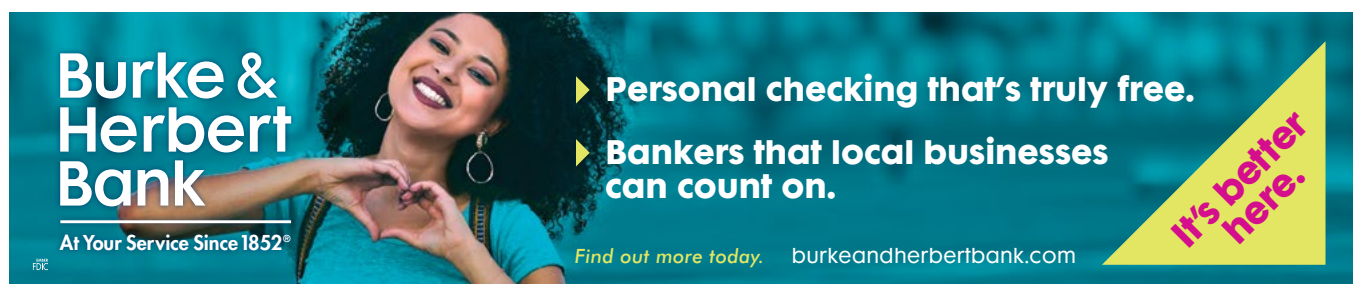
On the consumer side of our business, we have continued to focus on gaining new, primary customer relationships based on the foundation of a personal checking account. The Bank's total number of personal checking accounts on file exceeded 54,600 as of June 30, a year-over-year increase of 3.0%.

We continue to invest in advertising and promotional initiatives, all designed to generate new business and increase positive awareness of Burke & Herbert Bank throughout the region. In April, we launched a new advertising campaign on a variety of radio stations, buses, print, and online media, complemented by marketing elements featured in our branches. The campaign's theme, "It's Better Here," highlights significant and valuable ways that both personal and business customers can have better banking experiences at Burke & Herbert Bank. To enhance our on-air presence, during baseball season we are sponsoring the "Bank on the Cycle" promotion with our long-time partner, radio station 106.7 "The Fan". This program is being promoted during popular sports talk programming and on social media, complementing the Bank's advertising during Washington Nationals games. With the advent of spring, the Bank's hard-working events team again participated in dozens of community activities, including festivals, fairs, golf tournaments, and softball games. With mascot Runyon often attending, these ambassadors introduce Burke & Herbert Bank to individuals and business owners, demonstrating personally the Bank's friendly culture and showing in-person how "It's Better Here."

All of us share the common goal of delivering a better banking experience for our customers, and to create value for our shareholders, customers, and our community at large. We are committed to the hard work required to make Burke & Herbert Bank the bank of choice in Northern Virginia, and we look forward to continued success and growth. On behalf of everyone at Burke & Herbert Bank, thank you for your business and support.



**E. Hunt Burke** **W. Scott McSween** **David P. Boyle**  
Chairman, Chief Executive Officer President &  
Board of Directors Chief Operating Officer



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- ▶ Bankers that local businesses can count on.

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**It's better here.**

# Income Statement

June 30, Six Months Ended  
(in thousands)

**2019**      **2018**

June 30, Three Months Ended  
(in thousands)

**2019**      **2018**

## INTEREST INCOME

|                              |    |               |    |               |    |               |    |               |
|------------------------------|----|---------------|----|---------------|----|---------------|----|---------------|
| Interest on Investments      | \$ | 14,248        | \$ | 14,423        | \$ | 6,715         | \$ | 7,128         |
| Interest & Fees on Loans     |    | 42,131        |    | 40,479        |    | 21,130        |    | 20,646        |
| <b>TOTAL INTEREST INCOME</b> |    | <b>56,379</b> |    | <b>54,902</b> |    | <b>27,845</b> |    | <b>27,774</b> |

## INTEREST EXPENSE

|                                  |  |               |  |              |  |              |  |              |
|----------------------------------|--|---------------|--|--------------|--|--------------|--|--------------|
| Interest on Deposits             |  | 8,419         |  | 3,504        |  | 4,748        |  | 1,993        |
| Interest on Other Borrowed Funds |  | 2,714         |  | 3,088        |  | 1,172        |  | 1,483        |
| <b>TOTAL INTEREST EXPENSE</b>    |  | <b>11,133</b> |  | <b>6,592</b> |  | <b>5,920</b> |  | <b>3,476</b> |

## NET INTEREST INCOME BEFORE PROVISION

|                            |  |               |  |               |  |               |  |               |
|----------------------------|--|---------------|--|---------------|--|---------------|--|---------------|
|                            |  | 45,246        |  | 48,310        |  | 21,925        |  | 24,298        |
| Provision for Loan Losses  |  | 474           |  | 624           |  | 237           |  | 312           |
| <b>NET INTEREST INCOME</b> |  | <b>44,772</b> |  | <b>47,686</b> |  | <b>21,688</b> |  | <b>23,986</b> |

## NON-INTEREST INCOME

|                                      |  |              |  |              |  |              |  |              |
|--------------------------------------|--|--------------|--|--------------|--|--------------|--|--------------|
| Fiduciary & Wealth Management Income |  | 2,080        |  | 2,112        |  | 1,045        |  | 1,066        |
| Other Fees on Loans                  |  | 277          |  | 301          |  | 180          |  | 168          |
| Service Charges, Commissions & Fees  |  | 3,861        |  | 3,832        |  | 2,006        |  | 1,941        |
| Income on Bank Owned Life Insurance  |  | 936          |  | 1,622        |  | 472          |  | 1,133        |
| <b>TOTAL NON-INTEREST INCOME</b>     |  | <b>7,154</b> |  | <b>7,867</b> |  | <b>3,703</b> |  | <b>4,308</b> |

## NON-INTEREST EXPENSE

|                                   |  |               |  |               |  |               |  |               |
|-----------------------------------|--|---------------|--|---------------|--|---------------|--|---------------|
| Salaries & Benefits               |  | 24,524        |  | 23,020        |  | 12,545        |  | 11,894        |
| Occupancy Expense                 |  | 3,076         |  | 2,831         |  | 1,522         |  | 1,429         |
| Other Operating Expenses          |  | 11,549        |  | 11,300        |  | 6,073         |  | 5,980         |
| <b>TOTAL NON-INTEREST EXPENSE</b> |  | <b>39,149</b> |  | <b>37,151</b> |  | <b>20,140</b> |  | <b>19,303</b> |

|   |  |       |  |     |  |       |  |     |
|---|--|-------|--|-----|--|-------|--|-----|
| Realized Gain/(Loss) on Securities          |  | 2,992 |  | 0   |  | 1,062 |  | 0   |
| Realized Gain/(Loss) on Foreclosed Property |  | 0     |  | 173 |  | 0     |  | 173 |

## NET INCOME BEFORE TAX

|                    |  |        |  |        |  |       |  |       |
|--------------------|--|--------|--|--------|--|-------|--|-------|
|                    |  | 15,769 |  | 18,575 |  | 6,313 |  | 9,164 |
| Income Tax Expense |  | 1,917  |  | 1,915  |  | 901   |  | 908   |

## NET INCOME

|    |               |    |               |    |              |    |              |
|----|---------------|----|---------------|----|--------------|----|--------------|
| \$ | <b>13,852</b> | \$ | <b>16,660</b> | \$ | <b>5,412</b> | \$ | <b>8,256</b> |
|----|---------------|----|---------------|----|--------------|----|--------------|

## HIGHLIGHTS

|                              |    |                 |    |                 |    |              |    |              |
|------------------------------|----|-----------------|----|-----------------|----|--------------|----|--------------|
| Earnings per Share           | \$ | <b>73.85</b>    | \$ | <b>87.64</b>    | \$ | <b>28.91</b> | \$ | <b>43.00</b> |
| Number of Shares Outstanding |    | <b>187,268</b>  |    | <b>189,681</b>  |    |              |    |              |
| Dividend per Share           | \$ | <b>40.00</b>    | \$ | <b>38.00</b>    | \$ | <b>20.00</b> | \$ | <b>19.00</b> |
| Book Value per Share         | \$ | <b>1,917.58</b> | \$ | <b>1,794.54</b> |    |              |    |              |
| Return on Average Assets     |    | <b>0.94%</b>    |    | <b>1.10%</b>    |    |              |    |              |
| Return on Average Equity     |    | <b>7.98%</b>    |    | <b>9.82%</b>    |    |              |    |              |
| Overhead Efficiency Ratio    |    | <b>74.71%</b>   |    | <b>66.13%</b>   |    |              |    |              |
| Gross Loans to Deposits      |    | <b>78.29%</b>   |    | <b>81.09%</b>   |    |              |    |              |

# Balance Sheet

June 30 (in thousands)

**2019**

**2018**

## ASSETS

|                         |           |           |
|-------------------------|-----------|-----------|
| Cash & Due from Banks   | \$ 78,425 | \$ 92,623 |
| Total Investments       | 785,778   | 904,550   |
| Loans, Total            | 1,877,510 | 1,888,992 |
| Reserve for Loan Losses | (17,973)  | (16,827)  |
| Loans, Net              | 1,859,537 | 1,872,165 |
| Premises & Equipment    | 41,625    | 41,449    |
| Other Real Estate       | 338       | 338       |
| Other Assets            | 174,917   | 149,445   |

|                     |                     |                     |
|---------------------|---------------------|---------------------|
| <b>TOTAL ASSETS</b> | <b>\$ 2,940,620</b> | <b>\$ 3,060,570</b> |
|---------------------|---------------------|---------------------|

## LIABILITIES

|                            |            |            |
|----------------------------|------------|------------|
| Demand Deposits            | \$ 620,828 | \$ 651,472 |
| Interest Checking Deposits | 385,507    | 433,453    |
| Time & Savings Deposits    | 1,391,797  | 1,244,674  |
| Total Deposits             | 2,398,132  | 2,329,599  |
| Other Borrowed Funds       | 140,000    | 370,000    |
| Other Liabilities          | 43,387     | 20,581     |

|                          |                  |                  |
|--------------------------|------------------|------------------|
| <b>TOTAL LIABILITIES</b> | <b>2,581,519</b> | <b>2,720,180</b> |
|--------------------------|------------------|------------------|

## STOCKHOLDERS' EQUITY

|   |          |          |
|---|----------|----------|
| Common Stock                                    | 3,745    | 3,794    |
| Surplus   | 10,000   | 10,000   |
| Retained Earnings                               | 353,995  | 334,981  |
| Net Income                                      | 13,852   | 16,660   |
| Accumulated Other Comprehensive Income / (Loss) | 1,977    | (7,571)  |
| Common Stock Repurchased                        | (24,468) | (17,474) |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                   | <b>359,101</b>      | <b>340,390</b>      |
| <b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> | <b>\$ 2,940,620</b> | <b>\$ 3,060,570</b> |

**The Bank's transfer agent is:** American Stock Transfer (AST), 6201 15th Avenue, Brooklyn, NY 11219.  
 Visit AST online at [astfinancial.com](http://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.

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