

**2020
2ND QUARTER
EARNINGS REPORT**



**Burke &
Herbert
Bank**

At Your Service Since 1852®

TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS

Consistent with businesses throughout the country, during the second quarter of 2020 Burke & Herbert Bank was impacted by the national health crisis and resulting economic downturn – both in terms of our work and our results. A significant amount of our time and attention was placed on efforts to implement new protocols to help ensure the health and safety of the Bank's team members and our customers.

We managed through most of the quarter with many of our team members working remotely and our branches serving customers primarily through drive-up teller services, with other branch banking services available by appointment only. By the end of the quarter, as our region moved to “phase 2” of reopening, we were able to take some steps toward “normal” operations, yet as we all know, things are still far from normal.

Reflecting the challenging environment, the Bank posted net income after taxes of \$11.6 million for the first six months of the year, representing a \$2.3 million or -16.4% decline from the same time a year ago. For the second quarter, net income after taxes was \$4.7 million, short of the same quarter last year by \$733 thousand or -13.5%.

Net interest income, the primary source of the Bank's revenue, totaled \$44.1 million through June 30, 2020, shy of the prior year by -2.4%. While the low interest rate environment dampened total interest income (-9.3%), the decline was largely offset by a \$4.1 million reduction (-37.1%) in interest expense. Interest paid on deposits was reduced by \$2.3 million compared to the same six months of 2019 and interest expense on borrowings from the Federal Home Loan Bank declined by \$1.9 million.

Recognizing the increased level of risk in our loan portfolio due to the economic conditions brought on by the pandemic, the Bank took action to increase the loan loss provision by \$8.6 million on a year-over-year basis. Management and the Board of Directors believe that a conservative approach to credit risk management is the right thing to do and will serve our Bank well in the long run. Consequently, net interest income after provision expense totaled \$35.0 million through June 30, \$9.7 million lower than at the same time the prior year (-21.7%).

Non-interest income totaled \$9.3 million for the year to date, with \$3.5 million generated in the second quarter. For the year to date, non-interest income is \$831 thousand



lower than the same time last year (-8.2%). The second quarter decline was steeper, with non-interest income in the quarter falling by \$1.3 million or -26.5% when compared to the second quarter of 2019. The declines are explained by lower gains on the sale of investment securities as well as reductions in transaction-based revenue as consumer spending and resulting debit card interchange income and other fees declined in light of the pandemic. Our wealth services business continues to perform well despite the challenging environment; fee income from our combined wealth management and trust services business totaled \$2.2 million as of June 30, ahead of the prior year by 3.6%.

Another positive result for the year thus far is a nearly \$7.0 million reduction in non-interest expense. The Bank's core operating expenses totaled \$32.1 million for the first six months of the year, which compares favorably to the \$39.1 million in operating expenses incurred during the same time period last year. Much of the improvement can be attributed to reduced salaries and benefits expense, which is \$4.3 million or -17.7% lower in 2020 than at the same time in 2019. The Bank's cost saving initiatives have contributed

to a notable improvement in our overhead efficiency ratio. As of June 30, 2020, our overhead efficiency ratio was 60.2%, improving from 70.7% last year.

The Bank's total assets at the end of the second quarter stood at \$3.3 billion, the highest in the Bank's nearly 168-year history. Compared to June 30, 2019, assets grew by 13.4%, and during the second quarter, assets increased by 6.7%. Year over year asset growth includes a 5.3% increase in total loans, with the loan portfolio reaching \$1.98 billion at quarter-end, also an all-time high. After the reserve for loan losses, which increased by \$11.1 million compared to June 30, 2019, net loans stood at \$1.95 billion, reflecting a 4.7% year over year gain.

Loan growth was driven exclusively by Paycheck Protection Program loans that were made to our small- and mid-sized business customers requiring assistance as their operations were closed or limited during the height of the pandemic. While these loans are low margin loans and likely short term in nature, the Bank was pleased to support our local businesses and those they employ by participating in this Small Business Administration program. The Bank processed more than 1,100 Paycheck Protection Program loans with \$136 million in total balances in just a few short weeks during the second quarter, engaging resources from throughout the Bank to support this important work.

Much of the Bank's asset growth was funded with an increase in core deposits. The Bank's total deposits reached \$2.7 billion as of June 30, 2020, nearly \$308.0 million more (+12.8%) than at the same time the year prior. Growth in the second quarter was \$202.4 million or +8.1%. The vast majority of the increase was in checking balances, which represent our lowest cost source of funding.

Burke & Herbert Bank continues to remain well capitalized. As of June 30, 2020, the Bank's equity capital stood at \$368.7 million, increasing 3.5% during the second quarter. The Bank's capital position is well above all regulatory requirements.

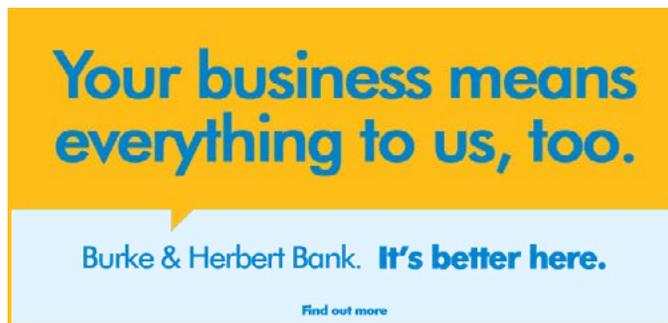
Thank you for your ongoing support and confidence in Burke & Herbert Bank. While these are challenging times, you have our ongoing commitment that we will work hard to continue serving our customers and the community and create value for our shareholders.



E. Hunt Burke
Chairman of the Board



David P. Boyle
*President & Chief
Executive Officer*



Your business means everything to us, too.

Burke & Herbert Bank. It's better here.

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BALANCE SHEET

<i>As of June 30 (in thousands)</i>	2020	2019
ASSETS		
Cash & Due from Banks	\$ 263,870	\$ 78,425
Total Investments	902,004	785,778
Loans, Total	1,976,455	1,877,510
Reserve for Loan Losses	(29,086)	(17,973)
Loans, Net	1,947,369	1,859,537
Premises & Equipment	40,381	41,625
Other Real Estate	0	338
Other Assets	180,744	174,917
TOTAL ASSETS	\$ 3,334,368	\$ 2,940,620
LIABILITIES		
Demand Deposits	\$ 798,258	\$ 620,828
Interest Checking Deposits	479,750	385,507
Time & Savings Deposits	1,427,844	1,391,797
Total Deposits	2,705,852	2,398,132
Other Borrowed Funds	225,000	140,000
Other Liabilities	34,793	43,387
TOTAL LIABILITIES	2,965,645	2,581,519
STOCKHOLDERS' EQUITY		
Common Stock	3,724	3,745
Surplus	10,113	10,000
Retained Earnings	356,051	353,995
Net Income Year to Date	11,580	13,852
Accumulated Other Comprehensive Income / (Loss)	13,962	1,977
Common Stock Repurchased	(26,707)	(24,468)
TOTAL STOCKHOLDERS' EQUITY	368,723	359,101
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 3,334,368	\$ 2,940,620

*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.*



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