

third  
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

*Burke & Herbert Bank posted net income of \$4.5 million for the third quarter of 2019, bringing the total for the nine months ended September 30, 2019 to \$18.4 million. The Bank reported net income of \$23.4 million for the nine-month period ended September 30, 2018.*

During the third quarter, the Bank earned \$21.7 million in net interest income, a decrease from \$23.9 million during the same quarter the year prior. For the year to date, net interest income totaled \$66.5 million, \$5.1 million or 7.1% lower than the same nine months last year.

Interest and fees on loans, the single largest source of revenue for the Bank, reached \$63.6 million for the first nine months of 2019, an increase of 2.7% over the same period one year ago. At the same time, income earned from the Bank's investment portfolio declined by \$1.0 million or 4.7% year-over-year. As a result, the Bank's total interest income through September 30, 2019 totaled \$84.1 million, slightly greater than, but essentially flat as compared to the same period in 2018.

Through the first nine months of the year, total interest expense totaled \$16.9 million, a \$6.0 million increase over what was paid in the same period in 2018. This increase was driven by a \$7.5 million increase in deposit interest expense. In the latter months of 2018 and through much of 2019 thus far, the Bank elected to raise the rates paid on several deposit products in response to market conditions and competitive factors. This followed rate increases implemented by the Federal Reserve Bank ("FRB"). More recently, the Bank has had an opportunity to reduce many deposit rates in response to interest rate reductions implemented by the FRB in 2019. The Bank continues to manage its cost of funds actively. This is evidenced by the fact that the overall cost of funds, at 89 basis points, enabled the Bank to be in the 29th percentile when compared to its Uniform Bank Performance Report peer group.

Non-interest income for the first nine months of 2019 was \$11.0 million, a \$531 thousand decrease from the same period one year ago, driven primarily by lower income from Bank-Owned Life Insurance. For the three months ended September 30, however, the Bank's non-interest income increased by 5.0% over the same quarter one year ago, boosted by other fees on loans and service charges, commissions and fees. The improvement in the fees on loans category was driven by an increase in servicing released premiums earned from mortgage loans sold to investors. Continued growth of the Bank's debit card business and resulting interchange income fueled the increase in service charges, commissions and fees.

Non-interest expenses in the third quarter were 6.4% or \$1.2 million greater than the same quarter one year ago and 5.7% or \$3.2 million higher year to date. Salaries and benefits comprise the majority of the Bank's non-interest expense and drive the overall year-over-year expense increase. Our region's tight and competitive labor market has resulted in increased costs for human capital required to sustain our business and continue to grow.

As of September 30, the loan portfolio had increased by \$38.5 million or 2.1% over the prior year, with total loans standing at \$1.89 billion. Total investments stood at \$732.5 million at the end of the third quarter, 16.5% below the level one year prior. The majority of the cash generated by the investment portfolio has been utilized to reduce the amount of borrowed funds held by the Bank and also to fund growth of the loan portfolio. Overall, total assets as of September 30 stood at over \$2.9 billion, lower than the previous quarter by 0.8%, and by 4.0% year over year.

New loan production for the first nine months of 2019 continues to outpace last year's volume. As of September 30, year-to-date loan production reached \$300.9 million, an amount greater than the level of new loans generated in all of 2018. While commercial real estate loans comprise the majority of the Bank's lending program, we continue our work to diversify the portfolio. Growing lending in the commercial and industrial segment is a priority for the Bank. In addition, we are continuing our work to grow our small business and residential mortgage business lines.

The credit quality of the Bank's loan portfolio remains outstanding. As of September 30, delinquent loans represented only 0.22% of total loans. Non-performing loans as a percent of total loans stood at 0.90% at the conclusion of the third quarter.

Total deposits grew slightly in the third quarter, rising by \$17.4 million or 0.7%. The portfolio totaled \$2.41 billion at September 30, greater than the previous quarter. Compared to the same date the year prior, total deposits have increased

by 5.3%. Demand deposit and NOW account balances decreased by \$57.1 million during the first nine months of 2019. The decline was more than offset, however, by an increase in time and savings deposits, greater than the same period in 2018 by \$179.0 million. As of September 30, time and savings deposits stood at \$1.42 billion, an increase of 14.4% as compared to the year prior.

Our consumer banking business continues to perform well as measured by growth in personal checking accounts on file. Our personal checking base grew to more than 55,000 accounts at quarter-end, 3.0% greater than at the same point in 2018. We continue to feature our highly-competitive Convenient Checking Account in marketing and sales efforts as a key strategy for growing primary household banking relationships with checking as the foundation. Additionally, our customers' use of key services associated with personal checking accounts, while already high, continues to rise steadily. More and more customers are taking advantage of the convenience of Online Banking, Online Bill Pay, Mobile Banking, and the Burke & Herbert Bank Visa® Debit Card – all indicators of primary banking relationships.

To generate new business, as well as to build and maintain positive awareness of Burke & Herbert Bank throughout our market area, we continue to invest in advertising and promotional initiatives that reach potential personal and business customers. Our branch-based summer campaign featured “cool summer deals” on a variety of credit products for consumers: a \$500 closing cost credit on a new mortgage, a low, fixed introductory rate on a new Home Equity Line of Credit, and a double rewards offer on a new Burke & Herbert Bank Rewards Credit Card. The offers also were promoted online and via social media. On-air advertising for the Bank continued throughout the quarter on a variety of radio stations, with commercials promoting the Bank's offerings for both personal and commercial customers.

Third quarter initiatives included celebration of the Bank's 167th “birthday.” Throughout August, branch visitors participated in our “Birthday Challenge Celebration”, answering questions about Burke & Herbert Bank – past and present – and entering a drawing for a chance to win \$200 for a celebration of their own. The program, which included complimentary birthday cupcakes, resulted in wide participation and valuable opportunities for customer engagement, sales, and relationship building.

Our celebration of 167 years in business is only possible because of the hard work and dedication of every member of the Burke & Herbert Bank team. The team remains focused on delivering exceptional banking experiences, ensuring that “It's Better Here” is a reality for all of our customers. We are indebted to our customers and shareholders alike, who have supported, trusted, and enabled Burke & Herbert Bank to grow and thrive. Thank you for your continued support.



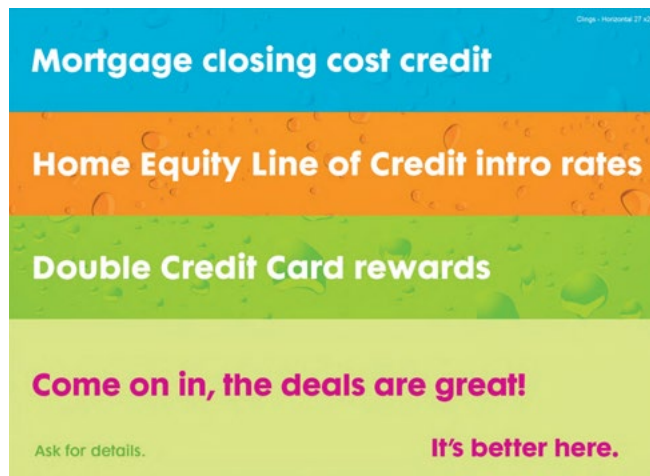
**E. Hunt Burke**  
Chairman,  
Board of Directors



**W. Scott McSween**  
Chief Executive Officer



**David P. Boyle**  
President &  
Chief Operating Officer



**Mortgage closing cost credit**

**Home Equity Line of Credit intro rates**

**Double Credit Card rewards**

**Come on in, the deals are great!**

Ask for details. **It's better here.**

# Income Statement

(unaudited)

September 30, Nine Months Ended  
(in thousands)

September 30, Three Months Ended  
(in thousands)

**2019**

**2018**

**2019**

**2018**

## INTEREST INCOME

Interest on Investments	\$	20,449	\$	21,468	\$	6,201	\$	7,045
Interest & Fees on Loans		63,617		61,941		21,486		21,462
<b>TOTAL INTEREST INCOME</b>		<b>84,066</b>		<b>83,409</b>		<b>27,687</b>		<b>28,507</b>

## INTEREST EXPENSE

Interest on Deposits		13,348		5,833		4,929		2,329
Interest on Other Borrowed Funds		3,488		5,015		774		1,927
<b>TOTAL INTEREST EXPENSE</b>		<b>16,836</b>		<b>10,848</b>		<b>5,703</b>		<b>4,256</b>

## NET INTEREST INCOME BEFORE PROVISION

		67,230		72,561		21,984		24,251
Provision for Loan Losses		711		936		237		312
<b>NET INTEREST INCOME</b>		<b>66,519</b>		<b>71,625</b>		<b>21,747</b>		<b>23,939</b>

## NON-INTEREST INCOME

Fiduciary & Wealth Management Income		3,114		3,154		1,034		1,042
Other Fees on Loans		498		472		221		171
Service Charges, Commissions & Fees		5,966		5,801		2,105		1,969
Income on Bank Owned Life Insurance		1,426		2,108		490		486
<b>TOTAL NON-INTEREST INCOME</b>		<b>11,004</b>		<b>11,535</b>		<b>3,850</b>		<b>3,668</b>

## NON-INTEREST EXPENSE

Salaries & Benefits		37,384		34,838		12,860		11,818
Occupancy Expense		4,699		4,297		1,623		1,466
Other Operating Expenses		17,456		17,176		5,907		5,876
<b>TOTAL NON-INTEREST EXPENSE</b>		<b>59,539</b>		<b>56,311</b>		<b>20,390</b>		<b>19,160</b>

Realized Gain/(Loss) on Securities		3,192		39		200		39
Realized Gain/(Loss) on Foreclosed Property		0		173		0		0

## NET INCOME BEFORE TAX

		21,176		27,061		5,407		8,486
Income Tax Expense		2,821		2,718		904		803

## NET INCOME

	\$	<b>18,355</b>	\$	<b>24,343</b>	\$	<b>4,503</b>	\$	<b>7,683</b>
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## HIGHLIGHTS

Earnings per Share	\$	<b>97.92</b>	\$	<b>128.33</b>	\$	<b>24.02</b>	\$	<b>40.69</b>
Number of Shares Outstanding		<b>187,052</b>		<b>188,460</b>				
Dividend per Share	\$	<b>60.00</b>	\$	<b>58.00</b>	\$	<b>40.00</b>	\$	<b>20.00</b>
Book Value per Share	\$	<b>1,927.88</b>	\$	<b>1,788.98</b>				
Return on Average Assets		<b>0.83%</b>		<b>1.07%</b>				
Return on Average Equity		<b>6.95%</b>		<b>9.55%</b>				
Overhead Efficiency Ratio		<b>76.10%</b>		<b>66.96%</b>				
Gross Loans to Deposits		<b>78.11%</b>		<b>80.58%</b>				

# Balance Sheet

(unaudited)

September 30 (in thousands)

**2019**

**2018**

## ASSETS

Cash & Due from Banks	\$	102,627	\$	128,796
Total Investments		732,463		876,884
Loans, Total		1,886,791		1,848,314
Reserve for Loan Losses		(18,196)		(17,095)
Loans, Net		1,868,595		1,831,219
Premises & Equipment		41,213		41,693
Other Real Estate		338		338
Other Assets		170,507		157,007

<b>TOTAL ASSETS</b>	<b>\$</b>	<b>2,915,743</b>	<b>\$</b>	<b>3,035,937</b>
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## LIABILITIES

Demand Deposits	\$	632,872	\$	634,401
Interest Checking Deposits		362,354		417,958
Time & Savings Deposits		1,420,353		1,241,310
Total Deposits		2,415,579		2,293,669
Other Borrowed Funds		100,000		380,000
Other Liabilities		39,550		25,118

<b>TOTAL LIABILITIES</b>		<b>2,555,129</b>		<b>2,698,787</b>
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## STOCKHOLDERS' EQUITY

Common Stock		3,741		3,769
Surplus		10,000		10,000
Retained Earnings		350,254		331,230
Net Income		18,355		24,343
Accumulated Other Comprehensive Income / (Loss)		3,196		(11,210)
Common Stock Repurchased		(24,932)		(20,982)

<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>360,614</b>		<b>337,150</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>2,915,743</b>	<b>\$</b>	<b>3,035,937</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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