

2020 3RD QUARTER EARNINGS REPORT



**Burke &
Herbert
Bank**

At Your Service Since 1852®

TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS

Welcome improvements in economic and market conditions began to emerge during the third quarter as more local businesses were able to reopen, albeit at limited capacity, following the lockdown resulting from the global pandemic.

We too were pleased to be able to reopen Burke & Herbert Bank branches to serve customers in person, following largely appointment-only and drive-up teller operations during the prior quarter. While our year-to-date results have been dampened by pandemic-related challenges, we are pleased to note some bright spots and positive trends this quarter when compared to the prior one.

The Bank posted net income after taxes of \$17.4 million for the first nine months of the year, essentially unchanged year-over-year. For the third quarter alone, net income after taxes was \$5.8 million, 29.8% (\$1.34 million) higher than the same quarter last year and 25.0% higher (\$1.2 million) than the quarter ended June 30, 2020. Improved net income for the quarter was achieved despite increasing the Bank's provision for loan losses by \$3.3 million over the same period in 2019, given the continued economic uncertainty.

Low interest rates have continued to dampen interest income, and the Bank's interest and fees on loans declined by \$3.7 million from the same nine month period one year ago. Interest income on loans was also negatively impacted by over \$3.2 million in deferred interest income resulting from loan payment relief provided to borrowers through the Cares Act. Income from the Bank's investment portfolio declined as well (-17.2% or \$3.5 million) when compared to the same nine months the year prior.

While the Bank saw a quarter-over-quarter increase of 1.3% in total interest income, total year-to-date interest income declined by 8.6% compared to the prior year. This decline was partially offset by a \$7.4 million reduction (-44.0%) in interest expense over the same period last year, driven by a \$5.1 million (-38.5%) reduction in deposit interest expense, and a \$2.3 million (-65.1%) decline in interest expense associated with borrowed funds.

Overall, the Bank's net interest income in the third quarter grew by 3.3% over the prior quarter and totaled \$67.4 million for the year to date, essentially unchanged from the same nine months in the prior year. Net interest income after provision for loan losses, however, declined by \$11.7

million (-17.6%) compared to the same time a year ago, driven by significant additions to the Bank's provision for loan losses. We believe that the increase in the provision is prudent given stress in the loan portfolio resulting from the weakened economy.

A positive note in our quarter-over-quarter performance was the increase in non-interest income in the third quarter, which grew by \$588 thousand (16.8%) over the second quarter. This growth included a rise in wealth services income, an increase in transaction-based income on deposit accounts and debit cards, and an increase in servicing released premiums resulting from the sale of mortgage loans to investors. Mortgage loan activity has been particularly strong in recent months given the favorable rate environment for consumers purchasing homes or refinancing existing mortgages. The Bank has made a number of improvements to our mortgage program to support faster and easier application processing for our customers and to drive increased mortgage lending, resulting in higher revenues for the Bank. We are pleased to report that the enhancements are yielding some positive results.

The Bank's non-interest income for the year to date totaled \$13.4 million, a decline of \$792 thousand (-5.6%) when compared to the first nine months of 2019. The unfavorable variance in year-to-date non-interest income was driven in large part by \$1.2 million more in gains from the sale of investment securities in 2019.



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We also continue to be successful in our efforts to reduce the Bank's level of non-interest expense. Core operating expenses totaled \$49.9 million for the first nine months of the year, a reduction of \$9.6 million (-16.2%) from the same period one year ago. Much of the improvement has been driven by reduced salaries and benefits expense, which was \$6.6 million or -17.6% lower than at the same time in 2019. Other operating expenses are down as well, decreasing by 16.4% for the year thus far. The Bank's overhead efficiency ratio for the first nine months of 2020 was 61.8%, down from 73.1% at the same time last year.

The Bank's total assets at the end of the third quarter stood at nearly \$3.4 billion, a new all-time high. Compared to September 30, 2019, assets grew by \$441 million, or 15.1%. The Bank's loan portfolio stood at \$2.0 billion, 4.4% higher than one year prior. While non-Paycheck Protection Program loan growth has been slow this year, the Bank has grown its investment portfolio dramatically – by \$337.4 million (46.1%) from one year ago.

Much of the Bank's asset growth continues to be funded by growth in core deposits. The Bank's total deposits stood at \$2.7 billion as of September 30, 2020, nearly \$309.0 million

more (+12.8%) than at the same time last year. The majority of the increase (\$302.5 million) was in non-maturity deposit accounts with \$176.6 million of the growth in checking balances, our lowest cost source of funding.

Burke & Herbert Bank continues to remain well capitalized, enjoying a capital position that is well above all regulatory requirements. As of September 30, 2020, total stockholders' equity stood at \$374.3 million, 3.8% higher than the prior year. The Bank's book value per share has increased by \$82.08 year-over-year, and dividends have been maintained at \$20 per share per quarter.

Thank you for your ongoing support and confidence in Burke & Herbert Bank. While economic conditions remain challenging, all of us at the Bank are working our hardest to create long term shareholder value by serving our customers and the community.



E. Hunt Burke
Chairman of the Board



David P. Boyle
*President & Chief
Executive Officer*



BALANCE SHEET

<i>As of September 30 (in thousands)</i>	2020	2019
ASSETS		
Cash & Due from Banks	\$ 126,793	\$ 102,627
Total Investments	1,069,852	732,463
Loans, Total	1,969,394	1,886,791
Reserve for Loan Losses	(32,688)	(18,196)
Loans, Net	1,936,706	1,868,595
Premises & Equipment	39,748	41,213
Other Real Estate	0	338
Other Assets	183,580	170,507
TOTAL ASSETS	\$ 3,356,679	\$ 2,915,743
LIABILITIES		
Demand Deposits	\$ 809,497	\$ 632,872
Interest Checking Deposits	488,231	362,354
Time & Savings Deposits	1,426,805	1,420,353
Total Deposits	2,724,533	2,415,579
Other Borrowed Funds	225,000	100,000
Other Liabilities	32,888	39,550
TOTAL LIABILITIES	2,982,421	2,555,129
STOCKHOLDERS' EQUITY		
Common Stock	3,724	3,741
Surplus	10,139	10,000
Retained Earnings	352,326	350,254
Net Income Year to Date	17,427	18,355
Accumulated Other Comprehensive Income / (Loss)	17,349	3,196
Common Stock Repurchased	(26,707)	(24,932)
TOTAL STOCKHOLDERS' EQUITY	374,258	360,614
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 3,356,679	\$ 2,915,743

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

September 30, Nine Months Ended
(in thousands)

September 30, Three Months Ended
(in thousands)

2020 **2019** **2020** **2019**

INTEREST INCOME

Interest on Investments	\$ 16,930	\$ 20,449	\$ 5,768	\$ 6,201
Interest & Fees on Loans	59,927	63,617	19,942	21,486
TOTAL INTEREST INCOME	76,857	84,066	25,710	27,687

INTEREST EXPENSE

Interest on Deposits	8,209	13,348	2,065	4,929
Interest on Other Borrowed Funds	1,219	3,488	360	774
TOTAL INTEREST EXPENSE	9,428	16,836	2,425	5,703

NET INTEREST INCOME BEFORE PROVISION

	67,429	67,230	23,285	21,984
Provision for Loan Losses	12,636	711	3,537	237
NET INTEREST INCOME AFTER PROVISION	54,793	66,519	19,748	21,747

NON-INTEREST INCOME

Fiduciary & Wealth Management Income	3,253	3,114	1,098	1,034
Service Charges, Commissions & Fees	5,475	5,966	1,892	2,105
Net Gains on Securities	1,954	3,192	11	200
Income on Bank Owned Life Insurance	1,730	1,426	577	490
Other	992	498	511	221
TOTAL NON-INTEREST INCOME	13,404	14,196	4,089	4,050

NON-INTEREST EXPENSE

Salaries & Benefits	30,805	37,384	10,617	12,860
Occupancy Expense	4,520	4,699	1,498	1,623
Other Operating Expense	14,596	17,456	5,646	5,907
TOTAL NON-INTEREST EXPENSE	49,921	59,539	17,761	20,390

NET INCOME BEFORE TAX	18,276	21,176	6,076	5,907
Income Tax Expense	849	2,821	229	904

NET INCOME **\$ 17,427** **\$ 18,355** **\$ 5,847** **\$ 4,503**

FINANCIAL HIGHLIGHTS

Basic Earnings per Share	\$ 93.50	\$ 97.92		
Number of Shares Outstanding	186,202	187,052		
Dividend per Share	\$ 60.00	\$ 60.00	\$ 20.00	\$ 20.00
Book Value per Share	\$2,009.96	\$ 1,927.88		
Return on Average Assets	0.73%	0.83%		
Return on Average Equity	6.41%	6.95%		
Overhead Efficiency Ratio	61.76%	73.12%		
Gross Loans to Deposits	72.35%	78.11%		



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