

first
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

We are pleased to report that Burke & Herbert Bank achieved net income of \$8.4 million in the first quarter of 2019, reflecting a modest increase (0.4%) over the Bank's net income during the same period one year ago. Earnings per share thus far in 2019 total \$44.94, 1.9% ahead of the same time last year.

The Bank's income for the quarter included a year-over-year increase of \$1.2 million (5.9%) in interest and fees on loans, and a \$238 thousand year-over-year increase (3.3%) in the interest earned on our investment portfolio. Overall, the Bank's total interest income reached \$28.5 million for the quarter, increasing by \$1.4 million or 5.2% from the same quarter one year ago.

At the same time, the Bank's total interest expense increased significantly when compared to the first quarter last year. Throughout 2018, market rates increased, and so too did the interest rates we paid to our depositors. Our strategy of offering highly-competitive rates on select Certificate of Deposit and Money Market accounts has helped to retain balances and attract incrementally new deposits, while managing carefully the increase in the cost of funds. Interest expense for the three months ended

March 31, 2019 totaled \$5.2 million, an increase of 12.7% from the prior quarter, 67.3% when compared to the same quarter last year. As a result, the net interest income for the first quarter totaled \$23.1 million, slightly below the prior year (\$616 thousand or 2.6%).

Non-interest income in the first quarter declined by \$108 thousand or 3.0% from the year prior. Otherwise, the Bank took advantage of an opportunity to realize a non-recurring gain of \$1.9 million on the sale of select investment securities during the quarter.

Non-interest expenses rose by \$1.2 million or 6.5% over the prior year. The most significant driver was an increase of \$853 thousand in salaries and benefits. The Bank faces the continuing challenge of maintaining competitive levels of compensation for both retaining and attracting appropriately skilled and talented people in key areas. This is key to sustaining an effective stance for attracting and sustaining revenue-producing business.

The loan portfolio essentially has remained level year over year. As of March 31, total loans stood at \$1.9 billion, 0.4% lower than one year ago, and 0.7% greater than year-end 2018. At \$3.0 billion, total assets were nearly unchanged from the prior quarter and the level held one year ago.

The quality of our loan portfolio remains stellar. Delinquent loans as of quarter-end represented only 0.51% of total loans, down from 0.59% at year end 2018. Non-performing loans as a percentage of total loans remained low as well, ending the quarter at 1.31%.

On the consumer side of our business, the number of personal checking accounts on file as of March 31 increased to more than 54,200, a year-over-year gain of 3.4%. We continue to focus on attracting new, primary customer relationships that begin with checking as the foundation.

Total deposits stood at nearly \$2.4 billion as of March 31, an increase of \$38.6 million or 1.7% over the prior year. While





There's no limit to our **GRATITUDE**

Ask how you can get unlimited Refer-a-Friend rewards.

checking account balances declined by \$77.5 million or 7.0% year over year, the decline was more than offset by an increase of \$116.1 million or 6.0% among time and savings deposits over the prior quarter, and 9.5% year over year.

Marketing and promotional activities in the first quarter included the conclusion of our popular "Refer-a-Friend" program, which rewards new customers – as well as the established customers who refer them to the Bank – when the referred customer opens and uses a new checking account. This year's program resulted in our welcoming more than 900 new personal checking account customers to Burke & Herbert Bank. Also in the first quarter, the Bank launched a branch-based marketing campaign to encourage customers to take advantage of a "Big Picture Financial Review" – a conversation designed to assist customers in identifying and planning for their short- and long-term needs and goals. As a result of these Big Picture conversations, many customers were provided with time- and money-saving opportunities as well as introduction to our Wealth Advisors, Business Bankers, Mortgage Loan Officers, and others to provide expert guidance and assistance.

As a local community bank, one of our primary responsibilities is to support the communities in which we do business. Highlights of this quarter's community service activities included successful financial literacy presentations at a number of local schools, and active participation in the Virginia Bankers Association "Bank Day" program. On Bank Day, nineteen high school students representing various schools in the area spent the day at Burke & Herbert Bank observing branch managers in action, and meeting team members from across the Bank. The students learned about personal finance and the important role played by community banks. Students participating in Bank Day then had the opportunity to compete for college scholarships by writing essays based on their experiences at Burke & Herbert Bank.

We are proud of the accomplishments and results achieved in the first quarter of 2019, and we believe that Burke & Herbert Bank is well positioned for continuing success throughout 2019 and beyond. Everyone at Burke & Herbert Bank is committed to the hard work required to ensure that we deliver a *better* banking experience to each and every customer, and to producing increased value for our shareholders. Thank you for your support and confidence.

E. Hunt Burke
Chairman &
Chief Executive Officer

W. Scott McSween
President &
Chief Operating Officer

Income Statement

March 31, Three Months Ended (in thousands)

2019

2018

INTEREST INCOME

| | | | | |
|------------------------------|----|---------------|----|---------------|
| Interest on Investments | \$ | 7,533 | \$ | 7,295 |
| Interest & Fees on Loans | | 21,001 | | 19,833 |
| TOTAL INTEREST INCOME | | 28,534 | | 27,128 |

INTEREST EXPENSE

| | | | | |
|----------------------------------|--|--------------|--|--------------|
| Interest on Deposits | | 3,671 | | 1,511 |
| Interest on Other Borrowed Funds | | 1,542 | | 1,605 |
| TOTAL INTEREST EXPENSE | | 5,213 | | 3,116 |

NET INTEREST INCOME BEFORE PROVISION

| | | | | |
|----------------------------|--|---------------|--|---------------|
| Provision for Loan Losses | | 237 | | 312 |
| NET INTEREST INCOME | | 23,084 | | 23,700 |

NON-INTEREST INCOME

| | | | | |
|--------------------------------------|--|--------------|--|--------------|
| Fiduciary & Wealth Management Income | | 1,035 | | 1,046 |
| Other Fees on Loans | | 97 | | 133 |
| Service Charges, Commissions & Fees | | 1,855 | | 1,891 |
| Income on Bank Owned Life Insurance | | 464 | | 489 |
| TOTAL NON-INTEREST INCOME | | 3,451 | | 3,559 |

NON-INTEREST EXPENSE

| | | | | |
|-----------------------------------|--|---------------|--|---------------|
| Salaries & Benefits | | 11,979 | | 11,126 |
| Other Fees on Loans | | 1,554 | | 1,402 |
| Other Operating Expenses | | 5,476 | | 5,320 |
| TOTAL NON-INTEREST EXPENSE | | 19,009 | | 17,848 |

| | | | | |
|------------------------------------|--|-------|--|---|
| Realized Gain/(Loss) on Securities | | 1,930 | | 0 |
|------------------------------------|--|-------|--|---|

NET INCOME BEFORE TAX

| | | | | |
|--------------------|--|-------|--|-------|
| Income Tax Expense | | 1,016 | | 1,007 |
|--------------------|--|-------|--|-------|

NET INCOME

| | | | |
|----|--------------|----|--------------|
| \$ | 8,440 | \$ | 8,404 |
|----|--------------|----|--------------|

HIGHLIGHTS

| | | | | |
|------------------------------|----|----------|----|----------|
| Earnings per Share | \$ | 44.94 | \$ | 44.12 |
| Number of Shares Outstanding | | 187,397 | | 189,791 |
| Dividend per Share | \$ | 20.00 | \$ | 19.00 |
| Book Value per Share | \$ | 1,882.22 | \$ | 1,780.68 |
| Return on Average Assets | | 1.15% | | 1.11% |
| Return on Average Equity | | 9.86% | | 9.83% |
| Overhead Efficiency Ratio | | 71.00% | | 64.73% |
| Gross Loans to Deposits | | 78.34% | | 79.94% |

Balance Sheet

March 31, Three Months Ended (in thousands)

2019

2018

ASSETS

| | | | | |
|-------------------------|----|-----------|----|-----------|
| Cash & Due from Banks | \$ | 107,146 | \$ | 63,633 |
| Total Investments | | 837,098 | | 935,847 |
| Loans, Total | | 1,861,540 | | 1,868,815 |
| Reserve for Loan Losses | | (17,548) | | (16,620) |
| Loans, Net | | 1,843,992 | | 1,852,195 |
| Premises & Equipment | | 41,775 | | 41,779 |
| Other Real Estate | | 338 | | 411 |
| Other Assets | | 173,219 | | 146,413 |

| | | | | |
|---------------------|-----------|------------------|-----------|------------------|
| TOTAL ASSETS | \$ | 3,003,568 | \$ | 3,040,278 |
|---------------------|-----------|------------------|-----------|------------------|

LIABILITIES

| | | | | |
|----------------------------|----|-----------|----|-----------|
| Demand Deposits | \$ | 620,027 | \$ | 644,015 |
| Interest Checking Deposits | | 417,348 | | 470,854 |
| Time & Savings Deposits | | 1,338,920 | | 1,222,838 |
| Total Deposits | | 2,376,295 | | 2,337,707 |
| Other Borrowed Funds | | 230,000 | | 345,000 |
| Other Liabilities | | 44,551 | | 19,614 |

| | | | | |
|--------------------------|--|------------------|--|------------------|
| TOTAL LIABILITIES | | 2,650,846 | | 2,702,321 |
|--------------------------|--|------------------|--|------------------|

STOCKHOLDERS' EQUITY

| | | | | |
|---|--|----------|--|----------|
| Common Stock | | 3,748 | | 3,796 |
| Surplus | | 10,000 | | 10,000 |
| Retained Earnings | | 357,740 | | 338,584 |
| Net Income | | 8,440 | | 8,404 |
| Accumulated Other Comprehensive Income / (Loss) | | (3,092) | | (5,657) |
| Common Stock Repurchased | | (24,114) | | (17,170) |

| | | | | |
|-----------------------------------|--|----------------|--|----------------|
| TOTAL STOCKHOLDERS' EQUITY | | 352,722 | | 337,957 |
|-----------------------------------|--|----------------|--|----------------|

| | | | | |
|---|-----------|------------------|-----------|------------------|
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ | 3,003,568 | \$ | 3,040,278 |
|---|-----------|------------------|-----------|------------------|

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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